

## WASHINGTON STATE GAMBLING COMMISSION

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### MINUTES COMMISSION MEETING THURSDAY, APRIL 8, 1999

**Chairperson McLaughlin** called the meeting to order at 1:35 p.m. at the Inn at Semiahmoo, Blaine, Washington. She introduced the members of the Commission and staff present.

#### MEMBERS PRESENT:

**LIZ McLAUGHLIN**, Chairperson;  
**MARSHALL FORREST**, Vice Chair;  
**EDWARD HEAVEY**,  
**CURTIS LUDWIG**, and  
**PATRICIA L. HERBOLD**

#### OTHERS PRESENT:

**BEN BISHOP**, Executive Director;  
**SHERRI WINSLOW**, Deputy Director of Operations;  
**ED FLEISHER**, Deputy Director of Policy and Government Affairs;  
**CALLY CASS-HEALY**, Assistant Director of Field Operations  
**DERRY FRIES**, Assistant Director of Licensing Operations;  
**BOB BERG**, Assistant Director, Special Operations;  
**AMY PATJENS**, Manager, Communications and Legal Department;  
**JONATHAN MCCOY**, Assistant Attorney General;  
**TERRY WESTHOFF**, Financial Investigations Unit; and  
**SUSAN YEAGER**, Executive Assistant

#### LICENSE APPROVALS

#### NEW LICENSES, CHANGES, AND TRIBAL CERTIFICATIONS

**Commissioner Ludwig** moved to approve the new licenses, changes, and tribal certifications as listed in the agenda pages 1 to 18; **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

#### REVIEW OF AGENDA

**Ms. Patjens** said there are a couple of changes to today's agenda. There will be no staff reports. Also, Kegler's Choice of Wenatchee will not be going forward today. On Friday, there will be a staff report by Ed Fleisher, the Legislative Update. There are two rules packages up for discussion, bingo rules, which were discussed last month and the card room rules. There will be a few rules up for discussion and possible filing, two of them deal with Washington Blackjack and the staff is asking that alternatives be filed similar to how alternatives were filed last month. There are three rules that deal with video pull-tabs for charitable and nonprofit organizations and as they talked about last time, this would not be the full rules package that would be needed. This is just to generate the discussion and see what the Commission wants to do on this – whether they want to file these initial rules.

#### QUALIFICATION REVIEWS

#### **SPOKANE VALLEY FOUNDATION, Spokane**

**Mr. Westhoff** said this organization was formed in 1978 and provides transportation, housing, and services to the elderly and to persons who are mentally or physically challenged in Spokane County. Licensed since 1979, the organization has 15 active members and is governed by a board of eight members including two officers. There

are four employees and twelve volunteers who provide program services. For the fiscal year ended 1998, the organization served the elderly through Meals On Wheels, a transportation program, a weekly eaters and card players gathering, holiday dinners, and donations to other charitable and nonprofit organizations in their service area. Their current fiscal year ended June 30, 1998; Spokane Valley Foundation met its required combined net return of 12 percent for its Class "J" Bingo license by achieving a 13.6 percent net return. Their current fiscal year net return as of December 31, 1998 was 7.8 percent and they are participating in the net return moratorium. They met the program and supporting services expenditure requirements and they did not have excessive reserves. There are no pending charges. The staff recommends Spokane Valley Foundation be approved as a charitable organization authorized to conduct gambling activities in the state of Washington. Norman Majer, President, Gene Turner, Secretary-Treasurer, and Chris Cocker, Gambling Manager would be present today.

**Chairperson McLaughlin** asked if they would like to address the Commission.

**Norm Majer**, Executive Director, Spokane Valley Foundation, said the Spokane Valley Foundation is the only one in the area that helps senior citizens. They transport people around the Spokane Valley. For last year, 95 percent of the passengers were women. Their service is the only way these women could get into town because the bus service doesn't serve all areas.

**Commissioner Ludwig** referred to the financial summary for 97-98. They have shown a 15 percent increase in the bingo net receipts and he wondered how they account for that. **Mr. Majer** said he has no idea. He introduced Jean Turner, who takes care of the business of the organization.

**Ms. Turner** said they have changed their strategies. They have a new manager who is doing an excellent job and they have had an excellent first quarter this year. There were a lot of changes that took place last year and this year they are marketing things differently and keep pushing for changes.

**Commissioner Heavey** asked if the first quarter this year was as good as the same quarter last year and better than the last quarter of last year. **Ms. Turner** said that comparatively the first quarter in the business is good and the first quarter of this year was better than the first quarter of last year. The numbers were down by a good \$1,000 or \$1,200, but they changed their game strategies. **Commissioner Heavey** said the Commission has been informed that in general the income to charitable organizations from the bingo operation has had a substantial decline, specifically since the advent of the enhanced card rooms. He asked if they have any of these operations near their bingo hall. **Ms. Turner** said yes, they have several nearby. She said it has affected their play. She said their numbers were down substantially. She said it was difficult to compare when so many changes have been made. They've changed personnel, they have had two or three gambling managers since the first quarter of last year. She sent out 79 W-2s, and they generally have 26 to 27 employees at a time. In light of all those changes, it is difficult to compare, but in response to his question, the answer is yes, there has been a substantial decrease. **Commissioner Heavey** asked if they have fewer players but are able to keep their revenues at the same level. **Ms. Turner** said there has been a considerable drop, but it is hard to compare because of all of the changes.

**Commissioner Ludwig** moved to adopt the staff's recommendation that Spokane Valley Foundation be approved as a charitable organization authorized to conduct gambling activities in the state of Washington. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **SILVER BUCKLE RODEO CLUB, Vancouver**

**Mr. Westhoff** said this organization was formed in 1978. The mission is to encourage and support the participation of youth in equestrian events and studies. Licensed since 1984, the organization has 45 active members and is governed by a board of seven members, including four officers. There is a full time executive director and 45 volunteers who provided 985 hours of program services during the past fiscal year. They maintain two arenas, livestock barns and various livestock on a fenced 60-acre parcel in Vancouver. Members encourage youth age 6 to 24 to develop equestrian interests through participation in the youth-championed sponsorship scholarship program and through their rodeo skills program, they offered year-around calf roping,

barrel racing, pole bending, goat tying, and steer wrestling classes. Other services were provided indirectly through support of 4H activities, the donation of their facilities to civic groups and cash contributions to various charitable nonprofit organizations in the community. The organization changed its fiscal year from December 31<sup>st</sup> to a June 30<sup>th</sup> year-end. Therefore, this report covers a six-month period from January 1<sup>st</sup> through June 30, 1998. During this period, Silver Buckle Rodeo Club met its combined net return requirement of 14 percent for its Class K bingo by achieving a 19.7 percent net return. The year-to-date net return as of December 31 is 15.7 percent, also meeting the requirement. They met their program and supporting services expenditure requirements and did not have excessive reserves. As of this date there are no pending administrative charges against the organization. The staff recommends Silver Buckle Rodeo Club be approved as an athletic organization and authorized to conduct gambling activities in the state of Washington. Nick Peck, Administrative Director, and Cindy Arnold, Operators Director, would be present.

**Ms. Arnold** said she is operations director of Silver Buckle and Nick Peck was unable to attend due to illness.

**Commissioner Heavey** said he noticed that their bingo net revenue has dropped by \$137,000 and he wondered what it was doing this year. **Ms. Arnold** said it's dropping a little bit more. The bingo gross is down by 5 percent comparing the first quarter of '98 to first quarter of '99 and the bingo gross is down by 5 percent over last year, attendance is down 11 percent. Their one redeeming factor is their pull-tabs, which are up by 10 percent over last year so their combined gross is only down one-half of one percent when comparing those two quarters. First quarter is the best and the fact that they are staying flat this year as opposed to growing year over year is a big concern. **Commissioner Heavey** asked if the number of players has also declined. **Ms. Arnold** said yes by 11 percent. **Chairperson McLaughlin** asked if that meant the players are spending more. **Ms. Arnold** said that, yes, they are.

**Commissioner Heavey** asked what expenses they have had to cut. **Ms. Arnold** said they are trying to cut costs in their expenses so they can return the same amount of money to their organization that they did last year. So far they have been able to do that. **Commissioner Heavey** wondered what costs they cut. **Ms. Arnold** said they have been looking at tightening what they spend such as discretionary spending at the bingo game.

**Commissioner Heavey** said he would assume that they have done their tightening when they have their operating expenses set forth in their report to the Commission and that still shows a decline of \$137,000. He wondered if they were able to cut other expenses in the actual operation of their program. **Ms. Arnold** said she was the bingo manger and she has nothing whatsoever to do with the programs of Silver Buckle and that would be something that Mr. Peck could answer. She said they are going through an organizational change – they are changing their bylaws, Articles of Incorporation. They are looking at their programs that they provide right and trying to make some changes. Down in Vancouver as in the whole state of Washington when there is only an outdoor arena and it rains eight months a year, there's not a lot they can do during the winter months. They are attempting to reserve funds right now for the building of an indoor arena so that they can do more during the winter also.

**Commissioner Ludwig** moved to adopt the staff's recommendation and approve the Silver Buckle as an athletic organization and authorized to conduct gambling activities in the state of Washington. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **MUSIC WORKS NORTHWEST, Renton**

**Mr. Westhoff** said this organization was formed in 1965 and provides music education and performance opportunities in order to awaken talent, build self-esteem and instill discipline and develop a joy of music to people of all ages and backgrounds. The organization has been licensed since 1974 and changed its name from Imperials to Music Works Northwest in May 1998. There are 6 officers and 18 active members, who are also board and advisory members. There is a full time executive director, 17 employees and 44 volunteers that provided program services. The name change is indicative of their change in mission, which includes offering their music programs to a larger and broader spectrum and includes adults. They served 2,766 people in the King County area in the fiscal year. More than 24,000 people heard their performance and in addition they produced a compact disc feature a jazz combo which debuted at a Seattle concert. They moved into a new facility in December 1998 it and will allow them to offer services to broader audiences in keeping with their

change in mission.

For the fiscal year ended September 30, 1998, they met their combined net return of 16 percent for Class "M" bingo by achieving a 24.9 percent net return. Their year to date net return was 24.6 percent as of December 31, 1998. They did not have excessive reserves. For fiscal year ended September 30, 1998, the organization was granted a waiver for program service and supporting service expenditure requirements due to the aforementioned expansion of services and the temporary nature of the noncompliance and conducting a substantial amount of services through volunteers. The organization complied with the requirements of the waiver as provided by WAC 230-08-255 (6). The organization plans on meeting program and supporting services expenditures during this current fiscal year. As of this date there are no pending administrative charges against the organization.

The staff recommends this organization be approved as an educational organization and authorized to conduct gambling activities in Washington State.

**Kevin Crum**, bingo manager, asked if there were any questions.

**Commissioner Herbold** asked about a newspaper article that said they are one of two Bellevue locations getting some money from King County. **Mr. Crum** said that was true for the music side. He didn't know if an amount had been determined yet. He said the organization was working toward becoming more of an educational organization as they expand and change their mission. In this effort they are working to secure funds outside of bingo because they not only want to do more, but they don't want to rely on what's always been there.

**Commissioner Ludwig** said he was curious why they changed their name from Imperials Drum and Bugle Corps. **Mr. Crum** said the bingo is still called "Imperials Bingo," so he didn't change that name. He said he thought the main motivation behind changing the organization's name was because of a shift in focus from performance-related activities to more educational-based activities. They wanted to reach a new audience and a new group of fundraisers and they thought a fresh start would help.

**Commissioner Heavey** noted that the bingo income has increased by about \$50-60,000 and asked how that occurred. **Mr. Crum** said they moved to a new location in June of 1994. Prior to that, the bingo game had done well in its previous location, but the new location gave them the opportunity to not only be closer to more customers and more affluent ones, but improved freeway access, parking, a nicer building, and so on. Ever since they moved, the growth has continued. First quarter of '99 versus first quarter of '98 is the first quarter they do have a drop in attendance per session of 6 percent although they have a gain in their gross sales, but attendance is dropping so they expect that, by the end of the fiscal year, there won't be much growth in their net income at all. **Commissioner Heavey** asked if there were enhanced card rooms in his vicinity. **Mr. Crum** said yes, they weren't very far away from the Tukwila-type games or Freddie's Club in Renton. He said it was his understanding that in Renton they've limited future card room licensees to a specific zone which they are in the middle of and he's had quite a few visits from potential card room owners who would like to convert their bingo hall because they thought they were struggling.

**Commissioner Herbold** moved to adopt the staff's recommendation that Music Works Northwest be approved as an educational organization authorized to conduct gambling activities in the state of Washington.

**Commissioner Heavey** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **MANUFACTURER REVIEW**

### **CASINO OPERATIONS DEVELOPMENT, Seattle**

**Mr. Westhoff** said this company has applied for a Class B manufacturer's license. The applicant has copyrighted, applied for patents for several casino-type card games. They wish to market the games and enhance public card rooms in the state. There are seven card games that they are seeking to market and the games are currently being reviewed for approval in this state. The company was started in 1997 to provide consulting services to enhance card rooms and currently holds a service supplier license. Rodney Murray is the

sole proprietor. Mr. Murray is also licensed individually as a public card room employee and he holds a substantial interest as an owner in current public card room applicant, Charlie Mac's. Mr. Murray and casino operations development are currently in good standing and not under pending investigation for the two licenses held in the state of Washington. An investigation was conducted to make sure the organization qualified for licensure in the state, which included a review of the company of personal financial ownership and other business records. Procedures were performed to detect possible hidden or undisclosed ownership. No disqualifying information was noted. The staff recommends licensure of casino operation development as a Class B manufacturer in the state of Washington. He said Mr. Murray is present.

**Rod Murray** said he started out as a supplier of services. He started out for the games as the founder the Tulalip Tribal Gaming Agency before he left and some of these games came as a result of discussions with agents that they worked with. He proceeded to develop them into a point where they're feasible to be used. They are going to test them at Charlie Mac's. They aren't ready to go out and license the games, but now is the time to proceed with the manufacturing license because it takes time to do a number of things. They also have a gymnastics center in Sea-Tac they have had for about 10 years.

**Commissioner Ludwig** asked the WSGC staff about the possibility that this is a second tier operation for somebody that already has a house banked card room license. He wondered if this would comport with all the rules they have regarding various levels of interest. **Director Bishop** said this has the potential of being in conflict between operators and a manufacturer, but he would have to look at the rules. **Mr. Westhoff** said he believes that rule only applies to pull-tab manufacturers and operators and not to other types of manufacturers.

**Commissioner Ludwig** asked Mr. Murray if his games require a special type of card rather than a standard 52 deck. **Mr. Murray** said this is a standard card deck. Commissioner Ludwig wondered why they had to manufacture cards that are already available. Mr. Murray said that the pictures on some of them are different. He said it's a copyright on the pictures that are on them, primarily. **Chairperson McLaughlin** asked if it was sort of like Harrah's using Harrah's Club cards.. **Mr. Murray** said one of the games has pictures – it's an Asian card game called Rivera by his club, but it has a different name in Asia. He first learned about it in an illegal games seminar he attended as an inspector and it was illegal because they used dice in it and other things. It's known throughout the Asian community and they use pictures of rooster, a catfish. They are all symbolic to them, so instead of one through six, they have pictures on it so they thought they would just use pictures instead of numerical one through six. **Commissioner Ludwig** said they don't have four different suits and Ace through King. **Mr. Murray** said not in that particular game. The size of the card is standard. In the American version, they use numbers on the cards and a regular deck could be used.

**Chairperson McLaughlin** asked if Charlie Mac's is just asking for an application now. Mr. Murray said yes.

**Commissioner Herbold** asked if Mr. Murray is licensed currently as a public card room employee. **Mr. Murray** said he has been licensed since 1992 as a tribal gaming inspector and he is probably more licensed than anyone in the state. **Commission Herbold** asked if their company casino operations development is licensed as a gambling service supplier and he is requesting that company be licensed as a manufacturer of gambling equipment and he has a pending license for Charlie Mac's. **Mr. Murray** said yes. **Commissioner Herbold** asked if Charlie Mac's was a restaurant. Mr. Murray said it will be, but is not now. **Chairperson McLaughlin** asked if Mr. Murray is leasing the empty building. **Mr. Murray** said yes.

**Director Bishop** said he's not aware of any applications for testing of these games. **Ms. Winslow** said that, at this point in time they have not tested any of the games. They have received the information, but as she stated earlier during the enhancement program, they were not testing games because they devoted their staff activities to monitoring of the enhanced card rooms. **Director Bishop** said these games would have to go through the usual approval procedure. That rule is on the agenda now. **Commissioner Herbold** asked if it makes sense to approve a license for a manufacturer without knowing if the games they are going to manufacture are legal or not. **Director Bishop** said it wouldn't be a normal process.

**Commissioner Herbold** asked if Mr. Murray was going to physically create these cards or will he buy them from somebody else. **Mr. Murray** said he is going to contract with Paul-Son and Bud Jones to supply his cards.

**Commissioner Herbold** said that means he would be a distributor as opposed to a manufacturer. **Mr. Murray** said when they discussed what license he needed, it was decided that because the games were his and being produced by him that it would be a manufacturing license whether he subbed it out to somebody to produce or not.

**Chairperson McLaughlin** referred to a previous applicant whose wife owned a bar and he wanted to sell pull-tabs and wondered why this was different. **Director Bishop** said the difference is that the previous situation involved a specific pull-tab game. He said it was his understanding that Mr. Murray is going to attempt to patent a game that would be played with standard playing cards. The table layout possibly would be part of that patent, but both the games and the table layout, not the cards.

**Mr. Murray** said if he had to make a choice, then he would split off one entity to his wife and walk away from that one and deal with the other one. **Chairperson McLaughlin** asked why that was different than the other applicant. **Ms. Winslow** said the concern they had with the conflict with punch boards/pull-tabs was the knowledge of the manufacturing process and the ability to manipulate the play of the game. This is not a problem with a card game because the game is on the surface – it is not possible to manipulate as with the punch boards/pull-tabs.

**Commissioner Ludwig** said that was presented to the commissioners entirely as a separate financial enterprise and it was the financial separate property as opposed to community property that made it all appear satisfactory. The financial interest doesn't have anything to do with the fact that the couple is still husband and wife sharing the same household. He doesn't know what the financial separation would have to do with one cooperating with the other about how the game was put together and how it was marketed. He thought they were talking about something else, but it looks like it wasn't necessarily something else. The financial interest may have nothing to do with their otherwise willingness to work with each other, for instance. **Ms. Winslow** said she understood his point. **Director Bishop** said his recollection is not as good as it was at one time, but staff's concern was again through the supply route that they couldn't share money back and forth, that he could not buy from her. **Ms. Winslow** said that is correct and they actually asked the individuals not to sell to one another. He did come back to staff and ask if he could buy pull-tabs from his wife and he was told that that was not something that could be allowed. **Commissioner Ludwig** apologized for his concern.

**Chairperson McLaughlin** asked if, in this case, would it be all right if Mr. Murray ran his own games in his own establishment. **Ms. Winslow** said that would not be a problem.

**Commissioner Forrest** moved to approve licensure of Casino Operations Development as a Class B manufacturer in Washington. **Commissioner Heavey** asked if it would appropriate to add to the motion, "subject to the approval of the games" he wishes to manufacture. **Commissioner Forrest** agreed to make that part of his motion. **Commissioner Herbold** seconded the motion.

*Vote taken; motion carried with five aye votes.*

## **MULTIMEDIA GAMES, Tulsa, Oklahoma**

**Mr. Westhoff** said this company has applied for licensure to manufacture and sell compact-approved tribal lottery systems to Class III gambling facilities in Washington State. Multimedia provides interactive multi-media communications and data processing services and products to the gaming and entertainment industry. Multimedia's wholly owned subsidiary, MegaBingo, Inc., will assemble and market the systems in Washington State. MegaBingo is headquartered in Tulsa, Oklahoma and Multimedia's corporate headquarters are located in Austin, Texas. Corporate and financial records are maintained at both facilities and the systems will be assembled at an Austin, Texas facility. Numerous corporate officers and directors were identified and submitted to personal criminal background investigations. No disqualifying information was noted. Multimedia was incorporated on August 31, 1991, and has been publicly traded since July 9, 1993. They are currently traded on the NASDAQ exchange. The company has over 5.4 million outstanding shares of the 25 million common shares authorized. Mr. Gordon Graves, chief executive officer and chairman of the board, is the largest shareholder

and only substantial interest holder of shares with 1,087,620 shares beneficially owned. The stock traded at 5.25 as of March 1, 1999.

**Mr. Westhoff** said Multimedia Games, including its subsidiaries and principal officers are only licensed in Texas to date. The Texas State Lottery Commission and state and local officials in Oklahoma State were contacted to ensure that the company was in good standing. No derogatory information was noted. On February 15, 1999, Commission agents began an investigation including review of corporate, personal, financial, and other business records. Procedures were performed to detect possible hidden or undisclosed ownership, unreported officers or directors, undisclosed interests and sales operating facilities. The manufacturing process was also reviewed to detect undisclosed subcontractors or other substantial interest holders. Criminal and personal background investigations were conducted and all substantial interest holders identified. No disqualifying information was noted during the investigation. At the conclusion, agents discussed the licensing process in both Commission rules and compact provisions with corporate representatives. He said the staff recommends Multimedia Games d/b/a MegaBingo, Inc., be licensed as a Class F manufacturer in Washington State. Gordon Sjodin, the president of MegaBingo, Inc., is present.

**Gordon Sjodin** said that, of the tribes they have been dealing with since the early 90s in the state of Washington, they currently have agreements with 14 of the tribes. At one time there were two others they had agreements with and, depending upon what happens in the next few months, they could have contracts with those also. They started out as a bingo company dealing with a satellite-type game similar to what he discussed with the Commission several months ago when they were looking at a similar-type system for the charities. They also have the MegaMania game, which is a Class II-type device and at Evergreen and some had a chance to look at it yesterday. It is their intent upon approval to move forward and upon receiving approval from the tribes, which they are working with right now to supply some of the new tribal video lottery systems to the tribes for the play of the scratch games. Currently, their system and games are going through the certification process with GLI, which is the gaming test lab that has been approved by the Commission. They hope that process will be coming forward and come to an end shortly with approval of their system that will comply with Appendix X that was negotiated by the state with the tribal governments.

**Commissioner Ludwig** asked if they need a license to market Class II devices to tribes. **Mr. Sjodin** said yes, that is his understanding. **Commissioner Ludwig** said they would need a license to market Class III devices which they would like to do. **Mr. Sjodin** said that was correct.

**Commissioner Heavey** asked if Multimedia Games is a holding company. **Mr. Sjodin** said yes, it's the major corporation and then they are broken down to TV Games section and MegaBingo, Inc. MegaBingo, Inc., was the original company that came out of a corporation when they originally started the satellite game known as MegaMania, then became MegaBingo, Inc., and so it's a wholly owned subsidiary that deals strictly in the Native American market. **Commissioner Heavey** asked if the three corporations – MegaBingo, Television Games and Multimedia is wholly owned by Multimedia Games. **Mr. Sjodin** said yes. **Commissioner Heavey** asked if their stock was sold. **Mr. Sjodin** said Multimedia, as a whole, stock is sold. **Commissioner Heavey** said not the individual companies. **Mr. Sjodin** said that was correct. **Commissioner Heavey** said Multimedia is seeking the license. **Mr. Sjodin** said yes. **Commissioner Heavey** asked which ones of the wholly owned corporations would be doing the activity. **Mr. Sjodin** said MegaBingo, Inc., would actually be dealing with the tribes here in the state of Washington.

**Commissioner Heavey** asked the WSGC staff if the licensing of the parent corporation carries with it the licensing of the wholly owned subsidiaries because their "persons" are separate persons under the law. And he is wondering if the approval of the parent corporation then is transferable to the wholly owned subsidiary.

**Director Bishop** said the standards apply. The agency has always gone to parent companies saying that each portion of it has to meet all the standards so they usually license the head of the parent and should any of the subsidiaries fail to meet standards for any reason, it would in fact impact the parent. **Commissioner Heavey** said it raises an issue because these are separate persons under the law. If a parent corporation is licensed and it carries with it the licensing of all those wholly owned subsidiaries, what is the difference between that of licensing a wife or a husband and therefore the license carries to all members of the community. **Mr. McCoy** said the basic principle that they followed in this licensing approach is that all of the substantial interest holders are identified and they've identified what certain substantial interest holders are.

**Commssioner Heavey** said that did not address his question. **Mr. McCoy** said he was starting from that perspective and he hadn't really considered the issue going the other direction. If the agency is licensing the subsidiary, they would look at the parent corporation because they're substantial interest holders. He never considered it in the opposite direction. **Commissioner Heavey** said if MegaBingo, Inc., came in and asked for a license, they would look at the owner, which is Multimedia Games, Inc., and everybody has a substantial interest in that, and if they pass muster -- and they are passing muster, there are no problems -- and they license MegaBingo, Inc., then Multimedia Games is not licensed. **Mr. McCoy** said that was correct. **Commissioner Heavey** asked why it was not the reverse.

**Mr. Fries** said that, just like with any other activity they license, Multimedia is doing business as MegaBingo, Inc., so they are licensing MegaBingo, Inc., also. They go to the parent corporation as Director Bishop had said and they do just like they do with a tavern or a restaurant. The applicant may be ABC, Inc., but it's doing business as Joe's Tavern. **Commissioner Heavey** said Multimedia, Inc., is not d/b/a MegaBingo, Inc., and that is his concern. **Mr. Westhoff** said that even a commercial stimulant operation will apply under, for instance, an LLC, but the individuals that are members of that LLC are still substantial interest holders and have to meet the requirements of the agency rules. But covering the LLC, again, makes them responsible for the entire entity. **Mr. McCoy** said he thinks he understands Commissioner Heavey's question, but he thinks he has identified an issue that he had never considered before.

**Commissioner Ludwig** asked if this is the application name or did the staff make a mistake when they threw that d/b/a in there. That's a corporation doing business as another corporation. If that's the case, he's never seen that before. **Mr. Westhoff** said the agency has done it this way before. They have licensed the parent company doing business as the subsidiary that is actually doing the manufacturing or whatever the gambling activity is. **Commissioner Ludwig** asked if they list that assumed name with the Secretary of State -- which is ridiculous because if they are doing business under some other name, they must list that and if that some other name happens to be another corporation. It's just like Commissioner Heavey said "Ed Heavey doing business as Curt Ludwig," and that is ridiculous. **Commissioner Heavey** said he has never seen this kind of schematic saying this is the outline and these are the wholly owned subsidiaries. If he has approved licenses of corporations that are actually doing business through another corporation, he has not been aware of it. **Director Bishop** requested a break to have a sidebar on this issue because he thinks it needs to be addressed.

RECESS 2:41 p.m. CALLED BACK TO ORDER 2:53 p.m.

**Chairperson McLaughlin** called for a report from the staff with regard to Multimedia/MegaBingo. **Director Bishop** said Commissioner Heavey is correct. The staff recommends that MegaBingo, Inc., be licensed. Multimedia Games has been investigated as a substantial interest holder and has met all requirements. **Commissioner Heavey** said that, assuming the Commission approves the license, he wondered if the license application in the name of Multimedia, Inc., d/b/a MegaBingo, Inc., is going to be modified to be MegaBingo, Inc., and if the license is going to be issued to MegaBingo, Inc. **Director Bishop** said that was correct and they would get all of those taken care of if they would like to have the Commission approve it pending that change. **Commissioner Heavey** asked Mr. Sjodin if that is acceptable to him. **Mr. Sjodin** said yes.

**Commissioner Ludwig** suggested that when they license MegaBingo, Inc., that they just provide along with that in parentheses "a wholly owned subsidiary of Multimedia Games, Inc."

**Commissioner Ludwig** moved to approve the application of MegaBingo, Inc., a wholly owned subsidiary of Multimedia Games, Inc., as a licensed manufacturer to conduct business in the state of Washington.

**Commissioner Forrest** seconded the motion. **Chairperson McLaughlin** called for a vote to approve MegaMedia Games Inc. as a Class F manufacturer.

*Vote taken; motion carried with five aye votes.*

**Commissioner Forrest** suggested that, to ensure consistency, the staff should look through and see if they have any other similar situations like this and in due course, clean them up so there is a consistent policy. **Ms.**



**Winslow** said the assistant director had already advised her that he's going to be doing that very shortly.

#### **SIERRA DESIGN GROUP, Reno, Nevada**

**Mr. Westhoff** said this company has applied for a Class F manufacturer license in the state of Washington. They plan to assemble and market compact-approved tribal lottery systems to Class III gambling facilities. The organization is headquartered in Reno, where it maintains all corporate and financial records. Manufacture of assembly parts will be completed in Reno and shipped to the Class III facility and full assembly will happen on the Class III gambling premises. They were incorporated under the laws of Nevada in November 1996. The company was started to research and develop gaming device manufacturers. In the past year the company has decided to change its primary business in developing and marketing its own gambling devices for authorized sales in California, Nevada and Washington States so far. Robert Luciano is the sole owner, officer, and director of the company. The company has issued 100 shares of 2500 authorized common shares. Mr. Luciano owns all shares. The company stock is not publicly traded. The company's registered agent in the state of Steven Seward of the law firm Wickwire, Green Crosby, Brewer and Seward in Seattle.

**Mr. Westhoff** said the company currently has conditional licenses with four tribal governments in California. The tribal governments in California Department of Justice were contacted to ensure that the company is in good standing and that the company has no illegal sales in state. No derogatory information was noted. They have also applied for licensure in Nevada. Nevada Gaming Control Board was contacted with no derogatory information noted. On February 22, 1999, the agency staff began an investigative review of corporate and personal financial and other business records. Procedures were performed to detect possible hidden or undisclosed ownership, unreported officers or directors, undisclosed interests, and sales to illegal operating facilities. The manufacturer process was reviewed to detect undisclosed subcontractors or other substantial interest holders. Criminal and personal background investigations were conducted on all substantial interest holders and no disqualifying information was noted during the investigation. At the conclusion of the investigation, the staff discussed the licensing process and both Commission rules and Compact provisions with the corporate representative. The company was formed in 1996 and began as a research and development company with personal funds from the company owner, Robert Luciano, Jr. The source of funds were verified and no exceptions were noted. Based on the investigations, staff recommends Sierra Design Group Incorporated be licensed as a Class F manufacturer in Washington State. Robert Luciano, Jr. notified them that he would be present.

**Robert A. Luciano, Jr.,** said he represents Sierra Design Group, and his company is hoping they will have a successful form of gaming in the state of Washington and look forward to a very long record in good standing with the state and with the tribes. The company is relatively small by some standards with about 30 employees located in Reno. They have an office in Las Vegas for doing design work on signage and floor plan designs and have been working with the casinos here in Washington State as well as California for some time helping them originally with compact negotiations. At some point in time, as was noted in the record, they were asked by the tribes in California to develop products for them because they could not get legitimate manufacturing companies to develop quality products for the kind of games that were being approved in the compacts. Eventually, it turned out that those products could be adapted for Washington State and, to make a long story fairly short, that's why they are here today.

**Chairperson McLaughlin** asked if the commissioners have seen this machine before. **Mr. Luciano** said he didn't think so. The first product they put together was for California and was released publicly in September 9, 1998, and put in field trial on October 16, 1998, in California.

**Commissioner Herbold** said he indicated that he had helped the tribes in their compact negotiations. She wondered if he meant in connection with technical specifications describing the machine. **Mr. Luciano** said he was originally was hired by the tribes in California to help negotiate with the tribes in the Governor's Office along with the Attorney General's office and their technical negotiations. The tribes in Washington State then hired him to similarly help them develop the technical side of their specifications.

**Commissioner Heavey** moved to approve the Sierra Design Group, Inc., as a Class F manufacturer.

**Commissioner Forrest** seconded the motion.

*Vote taken; motion carried with five aye votes.*

## **DEFAULT ORDER – REVOCATION OF GAMBLING LICENSE**

### **PAULA ZIMMERMAN, Burlington**

**Ms. Patjens** said the information about this default order is under tab #1. Paula Zimmerman was a gambling manager at BPOE in Mt. Vernon. They found that she was extending credit by allowing her mother to purchase pull-tabs with a credit card and also determined that she had altered pull-tab records to account for shortages that were created by her mother's pull-tab activity. Ms. Zimmerman resigned from the organization and also admitted to this. Originally she requested a hearing, and one day before the administrative hearing was to be held, she was found guilty by the Skagit County Superior Court of theft in the third degree. That day she withdrew her request for a hearing and submitted a new request stating that she would be waiving her right to a hearing. The staff requests that the license be revoked through a default order.

**Commissioner Ludwig** said his question doesn't really pertain to the merits of this default, but as a general proposition, he wondered if using a credit card like Visa or American Express is extending credit by the operator.

**Ms. Patjens** said yes. **Commissioner Ludwig** said that for years, the Liquor Board banned the use of credit cards for buying liquor, but they accepted credit cards because they are not the creditor – the bank that issued the Visa is the creditor. **Ms. Patjens** said the only area where credit cards are allowed are for raffles but otherwise, if someone is going to participate in a pull-tab activity, they have to pay by cash or check in full.

**Chairperson McLaughlin** asked if going to an ATM machine and getting money out with a VISA card would be credit. They do that now. **Ms. Patjens** said they could do that, but what is being given to the operator then is cash. **Commissioner Heavey** asked if it's by rule that credit cards are not allowed for buying pull-tabs. **Ms. Patjens** said that is correct. The rule says that it must be paid in full with cash or check and credit card is not listed there. **Chairperson McLaughlin** asked if it is considered cash. **Ms. Patjens** said no.

**Commissioner Ludwig** moved to enter a default order in this matter. **Commissioner Forrest** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **CARD ROOM CONTRACTS UNDER APPENDIX C – HOUSE-BANKED PILOT TEST**

### **JIMMY G'S, Lakewood**

**Ms. Cass-Healy** said the reports are under Tab 17 in handout No. 2. Jimmy G's is a new commercial restaurant and card room located in Lakewood, Washington. They requested and received a waiver of the six month operating requirement based on upon the experience of the general manager. Jimmy G's Casino is owned 100 percent by Tacoma Casino LLC which is owned by Christopher Kealy and Jimmy G's LP. None of the four owners holds an interest in any other card room in the enhancement test. Jimmy G's is requesting approval to operate 15 house-banked tables including 10 Blackjack, 2 Progressive Blackjack, 2 Let It Ride and 1 Caribbean Stud table. Special agents reviewed the internal controls and conducted pre-operation inspection. The licensee's operations are in compliance with all of the requirements of Appendix C and the internal controls appear to be functional as stated in their internal control submission. Based on the review, approval to participate in the house banking card room test as a Level II, Phase I, operation is recommended.

**Chairperson McLaughlin** asked if it would be difficult for a picture of the building, inside and out, could be placed in the report. **Ms. Cass-Healy** said she thought that could be done.

**Commissioner Ludwig** asked if the operating hours for this establishment would be 12 noon to 8 a.m. the following day and if local approval had already been received. **Ms. Cass-Healy** said the hours he stated were

correct and local approval has already been given for that.

**Christopher Kealy** said he is with Jimmy G's LP and Tacoma Casino LLC. He is the general partner of the LP and co-manager of the LLC. There are multiple shift activities in the area such as the military base, hospitals, the port, all of which work 24 hours a day. They see their establishment as an opportunity to go to "dinner" in the morning because that's their "evening." So the hours that have been approved by the local law enforcement are good for them. They have worked hard with the City of Lakewood to come up with a variety of things that will work with the City to enhance things such as the street improvements they are doing and a variety of other functions. Their first night is next Wednesday, April 14, and it's dedicated solely to charity and a lot of people are coming over for that. They have 15 tables that will be dedicated to individual charities from cancer research through Mary Bridge Children's Hospital. They are proud of their commitment to charities in this process.

**Commissioner Herbold** asked how long their restaurant has been open and was it open during all the hours that the gambling is conducted. **Mr. Kealy** said absolutely and that their restaurant and banquet room will seat over 400 people. The restaurant was open before they went in to remodel, but during remodeling it has been closed. It will be an upscale restaurant. **Director Bishop** asked what the name of the previous restaurant was. **Mr. Kealy** said it was affiliated with the Big Brother/Big Sister Bingo. **Chairperson McLaughlin** asked where they went. **Mr. Kealy** said they were working hard to help them come along and that's where the banquet hall came from. It was supposed to be a bingo hall, but competing against the MegaBingo with the tribal operations, and with the Tacoma Tideflats having so many Native American bingo operations available was too much. They were just not competing anymore on a prize package basis. He has talked to Frank Miller and others in Olympia about pursuing it in the future to try to bring in – if the Commission ever allows a MegaBingo nonprofit relationship – they have made plans to be able to put those in their facility for the nonprofits. He said his vision includes a lot of different things.

**Director Bishop** said Lakewood imposed a moratorium; however, Jimmy G's is one that was specifically grandfathered under that, so that is not an issue. **Mr. Kealy** said he had some insight on moratoriums, too, and their concern is about their downtown corridor turning into a gaming district and so what they're doing is searching their zoning ordinances since they have so much multiple use district (MUD) land. They're trying to figure out which part of their MUDs they can allow gaming into because they do want the tax revenue, but which parts they don't, so that they don't have their downtown corridor, which is a lot of MUD zoning turning into a gaming district and jamming up their parking. They've also required them to have over 300 parking stalls in conjunction with their facility and they are currently working on a park-and-ride relationship, too, with public transit.

**Commissioner Heavey** moved to approve for a Phase I operation. **Commissioner Herbold** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **FREDDIE'S CASINO, Everett**

**Ms. Cass-Healy** said Freddie's Club of Everett is a commercial restaurant, lounge and card room located in Everett. This club is held by the Casino Enterprises LLC. Fred Steiner is president and one of three owners. In addition, Fred Steiner is also a stockholder in the GSG Corporation, which includes Freddie's of Renton, which has been participating in the card room enhancement program since November of 1997 and is currently operating house-banked games at Phase II level. GSG Corporation also operates Diamond Lil's of Renton, which has operated Phase I card games since February of 1998. In addition, Fred Steiner is the sole owner of Freddie's of Auburn, a restaurant, lounge, and card room. Freddie's of Auburn has been participating in the house-banked card games at Phase I since September 11, 1998. A waiver for Freddie's of Everett was granted based upon the experience of the owner-manager, Fred Steiner. Freddie's Club of Everett is requesting approval for 15 tables including nine house-banked Blackjack tables, one Pai Gow poker table, two Let It Ride tables, one Progressive Blackjack table and two Caribbean Stud tables. Special agents reviewed the internal controls and did a pre-operational inspection. Based on the review, it was determined the licensee's operations are in compliance with all the requirements of the appendices B and C and their internal controls are functional as stated in their internal controls submission. Approval to participate in the Gambling Commission's house-banked card room test as a Level II, Phase I, operation is recommended.

**Commissioner Herbold** asked if there is a standard that's applied when they are looking at a waiver for not operating for six months. She noticed the request was made in February and a waiver was given. She wondered if they give a waiver immediately if the owner/manager has experience, or do they require them to be at least four months. **Ms. Cass-Healy** said the staff looks at their entire history of experience and makes a determination based on that. Obviously, Mr. Steiner has been in the business for a little while.

**Chairperson McLaughlin** asked if anyone was present to represent the club.

**Fred Steiner** said that of the three card rooms he has, they all have different ownership structures with different partners in each. **Chairperson McLaughlin** said she had the opportunity to see the club as it was being built and developed. She said the restaurant was a Red Lobster before and had been closed for about two years.

**Commissioner Herbold** asked how long the restaurant had been operating. **Director Bishop** said it's currently closed and will be open next week. **Commissioner Herbold** asked if everything would open next week. **Mr. Steiner** said everything will open and be operating next week – the restaurant and card room.

**Director Bishop** said there is a requirement in the WAC rules that a business must be established. There's a waiver that the applicant has to pass an inspection and show that the capability is there. They look at the menus and see that all the equipment is there to show that they have the capability of operating the restaurant. They must also get pro forma estimates of what the business would be and that's set forth in the WAC rule.

**Commissioner Herbold** moved to approve Freddie's Club of Everett to participate in the card room enhancement program under Appendix C as a Level II, Phase I, operation.. **Commissioner Heavey** seconded the motion. *Vote taken; motion carried with four aye votes; Commissioner Ludwig voted no.*

## **GREAT WALL CASINO, Tacoma**

**Ms. Cass-Healy** said the Great Wall Casino is an existing commercial restaurant, lounge and card room located in Tacoma, Washington. This casino is the sole proprietorship owned by Chong Yon Chang. They are requesting approval to operate 15 tables. Thirteen will operate as house-banked games including 10 Blackjack, two Let It Ride, and one Pai Gow poker table. The remaining two tables will be poker and the operator will collect fees based on time. Special agents reviewed the internal controls and conducted the pre-operation inspection. Based on the review, approval to participate in the Commission's house-banked card room test as a Level II, Phase I, operation is recommended.

**Mr. Gene Rindy**, who represents Mr. Chang as his gaming consultant, said the restaurant has been open for 23 years. They used to have a nightclub there and they have a good relationship with the public based on how the restaurant has been run and now they are going to the gaming. They have a gaming school for all of the people who need to learn how to deal Blackjack. The training is free. The restaurant will be open 24 hours. They serve Chinese food, but they are changing their menu over for the breakfast for Americans. They've been operating from 2 p.m. until 10 a.m. They have also been operating a card room for Poker for the past five years.

**Commissioner Ludwig** asked how close they are to the Tacoma Mall Boulevard and how close they are to Jimmy G's. **Mr. Rindy** said they are just up the street. **Director Bishop** referred to Mr. Rindy presenting himself as a gaming consultant and wondered what kind of license he had. **Mr. Rindy** said he was a food manager, used to work in Las Vegas, and is licensed with the Commission as a card room employee.

**Commissioner Ludwig** moved to approve the application of the Great Wall to participate in the house-banked program as a Level II, Phase I, operation. **Commissioner Forrest** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **HOUSE-BANKED PILOT TEST – PHASE II REVIEWS**

### **LILAC LANES, Spokane**

**Ms. Cass-Healy** said the 11<sup>th</sup> Frame Restaurant or 300, Inc., and operates under the name of Lilac Lanes. She said Lilac Lanes is a bowling establishment, restaurant, lounge and card room located in Spokane. Lilac Lanes is a corporation with seven stockholders. The major stockholders are Mr. Dan Kukuk, Mrs. Catherine Kukuk, Mr. and Mrs. Walter Brown, and Mr. and Mrs. Jerry Emery and Mrs. Bonnie Brinkman. Mr. Robert Ramelow is the current chief operations officer. The licensee was approved and began house-banked games on June 11, 1998, with nine gaming tables. The club does not own any other card room in the state of Washington. They are currently operating nine tables including five Blackjack, one Let It Ride, one Caribbean Stud, one Progressive Blackjack, and one Pai Gow poker. The casino operates currently from 10 a.m. to 6 a.m. The staff completed an in-depth investigation consisting of review and observation of the gaming operations, review of the closed circuit television system, review of the cashier's cage, the gaming and organizational records, the account room controls, inquiries of law enforcement and taxing authorities, review of the key control procedures. On March 6, 1999, an exit conference was conducted. The licensee was very cooperative and agreed to make all necessary changes requested to correct the violations identified by the review team. Based on staff review, they recommend approval for Level II Phase II limits. All violations noted during the review were corrected.

**Robert Ramelow**, chief operations officer of Lilac Lanes said they are a 32-lane bowling alley in Spokane His parents are part owners along with Lou and Wally Brown. They have been in business for 16 years in Spokane. They have a full service restaurant and lounge, and a Karaoke room and the bowling center and restaurant is open 24 hours a day.

**Commissioner Heavey** noted that in the violations, there was a violation with the video and one of them was that one couldn't see a player's hand and the activity in the chip tray could not be seen on the Blackjack table No. 1, 6 and 8. He asked why the surveillance people didn't bring this to his attention and if they did he wanted to know why they didn't do something about it. **Mr. Ramelow** said they didn't call it to his attention and he was not aware of it only because they have limited space in the ceiling for the cameras. It was not intentional, but they have moved them to where they can get a better view. **Commissioner Heavey** said he didn't expect that it was intentional, but it's quite a serious violation. He asked what kind of training the surveillance people have. **Mr. Ramelow** said that they don't have a lot of training for surveillance. They are working on that, but to start with, as long as the dealers are sitting upright, the chip tray can be seen just fine. There are a few dealers who have a tendency to lean over as they are dealing and they have been instructed to sit up straight, but the cameras have been moved to fix that. **Commissioner Heavey** asked about player's hands. **Mr. Ramelow** said they can see the player's hands. **Mr. Ramelow** said the player's hand was just a minor adjustment and that's been corrected. **Commissioner Heavey** asked what kind of training were they going to provide to their surveillance people or what kind of procedures have they put in place so that they notify the management of any shortcomings in the surveillance system. **Mr. Ramelow** said his pit boss is going in and training his surveillance people what they expect them to watch for and what they expect them to see.

**Commissioner Heavey** asked if they have a procedures manual that says that the surveillance people shall report any shortcomings in the surveillance system. **Mr. Ramelow** said yes. **Commissioner Heavey** asked what happens when if they don't. **Mr. Ramelow** said they didn't see it was a problem at that time. **Commissioner Heavey** said that was because they didn't report it to him and now they had become aware of it, what were they going to do about it. **Mr. Ramelow** said no one reported it because they did not see the problem. **Commissioner Heavey** said he considers one player capping another player's bet to be serious. **Mr. Ramelow** said the undercover people informed them of that. **Commissioner Heavey** asked why the surveillance people didn't pick this up. **Mr. Ramelow** said that was a pretty hard one to see. **Commissioner Heavey** wondered why they didn't have any way to uncover the fact that their dealers are doing something that they're not supposed to do. **Mr. Ramelow** said he has no excuses and all he was trying to do was to get more involved with the training of surveillance. When they first started with this there was no training. There was nothing recommended by the Gambling Commission for surveillance so he had to get his own books from Las Vegas and people that they had in Spokane to help them to train their surveillance people what to look for. **Commissioner Heavey** asked if they have a formal training that they have adopted and put in a procedures manual. **Mr. Ramelow** said no. **Commissioner Heavey** asked if they were going to do that. **Mr. Ramelow** said yes. **Commissioner Heavey** asked when he was going adopt this procedures manual. **Mr. Ramelow** said he would adopt this procedures manual as soon as he gets back to work.

**Commissioner Ludwig** said his only concern with that particular incident on the Pai Gow table, he wanted to know if it were permissible if he is a player for him to cap his own bet. **Mr. Ramelow** said only prior to the cards being dealt. **Commissioner Ludwig** said he assumed that that's what the undercover agent saw somebody else cap the player's bet prior to the cards being dealt. **Mr. Ramelow** said that was his understanding. **Commissioner Ludwig** asked if he knew whether or not his dealer knew that was improper. **Mr. Ramelow** said she thought it was okay and she was also reprimanded and told that this is not allowed. **Commissioner Ludwig** asked if that had been corrected at least so far as the dealer was concerned. **Mr. Ramelow** said yes.

**Chairperson McLaughlin** asked why anyone would cap somebody else's bet. **Mr. Ramelow** said it was because they were playing \$25 on their own hand and they wanted to play more on somebody who's only playing \$10 – this is his understanding – so they put more money on that bet.

**Commissioner Herbold** asked Ms. Cass-Healy about the final inspection completed March 9, 1999, and asked if anyone has been back to make sure the corrections have been made. **Ms. Cass-Healy** said they follow up to make sure they are all corrected. Once they are approved, they are put on a regular monitoring program, which is based on the availability of the staff and the size of the operation. She said they are not required to notify the owner of a visit. Sometimes they just walk in. **Commissioner Herbold** said she is concerned that when there are so many violations they might make the corrections, but because of the shortage of Commission staff to re-inspect, they might go right back into some of the old habits. Then it is not brought to the Commission's attention until the next routine inspection. **Ms. Cass-Healy** said that has happened on occasion, but they try to straighten it back out again. **Ms. Winslow** said the staff does monitor the card rooms fairly regularly. The schedule is for monthly visits and it is not like they're going to be able to go ahead and operate and then go back to some of the same activities that violate their Appendix C.

**Chairperson McLaughlin** said the staff recommends approval, and after hearing the exchange between Commissioner Heavey and Mr. Ramelow does she still feel comfortable with approving the organization. **Ms. Cass-Healy** said that when she posed the same question to her staff, they said they felt very strongly that there were strong controls in place – that the licensee did everything in their power to make all the corrections and that they are a very clean operation.

**Commissioner Ludwig** said he noted in the report that the contact with law enforcement establishes that the operators look very good to minimize problems from loitering and the type of people that were hanging around in the bowling alleys, so there is an indication on the part of the operator that they are trying very hard to avoid problems on the part of the operator and he noted that the Phase II review turned out to be very beneficial for him when Agent McFarland determined that they were overpaying the city of Spokane in taxes.

**Commissioner Ludwig** moved that the licensee be approved for implementation of Level II, Phase II. **Commissioner Heavey** seconded the motion. *Vote taken; motion carried with five aye votes.*

## **FREDDIE'S CLUB, Auburn**

**Ms. Cass-Healy** said this club consists of two restaurants, a bar and a card room. Fred Steiner is the sole proprietor and owns 100 percent of the business. Freddie's Club opened their card room and began conducting house banked games on October 5, 1998. The licensee is currently operating 15 tables consisting of two Let It Ride, five Progressive Blackjack, five Blackjack, two Caribbean Stud Poker and one Pai Gow poker table. Staff conducted an in depth review which included the procedures she mentioned in the previous report. Based on this review staff recommend the decision to improve implementation to Level II Phase II status for Freddie's Club. All violations noted during the review have been corrected.

**Fred Steiner**, said the \$100 limit is pretty important. At first, when he first opened in Renton, they went through the \$25 thing pretty easy because there wasn't much competition and so the \$25 part went through pretty smooth. But with the competition of the Muckleshoots which is three miles away and the race track close by, he

thinks this is a big step for them right now as far as the club making money. They haven't made much money the first six months like they did in Renton.

**Commissioner Ludwig** said that this Phase II review is very much better than the first Phase II for Freddie's of Renton. He said he will be able to vote for this one.

**Commissioner Herbold** asked how it is that there are any violations even though he is now an experienced operator. **Mr. Steiner** asked what violations they are referring to. **Commissioner Herbold** said NSF checks, the wrong people controlled keys to the account room. **Mr. Steiner** said the Gambling Commission changed some of the rules in the meantime.

**Mr. Corey Thompson**, casino manager of Freddie's Club in Auburn said he went through the Phase II review with the agents in the field. He came into the operation one month prior to the review. Any violations they found were corrected immediately and they were all very minor violations that were oversights and were corrected immediately. **Commissioner Herbold** asked if he had not had the experience working in the Renton Club. **Mr. Thompson** said he had been with the Renton Club since it opened and that was why he was brought down to Auburn to correct anything that was a problem with the prior management.

**Chairperson McLaughlin** said she is going to have to state that she neglected to offer opportunities for public comment regarding any of the qualification reviews, the manufacture reviews, the card room contracts and the Phase II reviews. She said that anyone wishing to speak on any of those could do so at this time. No one came forward. She called for a vote.

**Commissioner Heavey** moved that the licensee be approved for implementation of Level II, Phase II. **Commissioners Herbold and Forrest** seconded the motion. *Vote taken; motion carried with five aye votes.*

#### **PARKER'S SPORTS BAR AND CASINO, Shoreline**

**Ms. Cass-Healy** said this is a commercial restaurant, lounge and card room. Parker's is owned by 17001 Corporation, which has multiple owners. George Sze, president, holds approximately 86 percent of the ownership interest while several other owners hold less than 14 percent collectively. The licensee began house-banked gaming on September 10, 1998. They do not own any other card room in the state of Washington. They currently operate 15 tables including 11 Blackjack, 1 Let It Ride, 1 Caribbean Stud, 1 Progressive Blackjack, and 1 Pai Gow Poker. The casino currently operates from 11:30 a.m. to 7:30 a.m. Staff conducted an in depth review as stated in the previous reports. Based on the review, the staff recommends approval for Level II, Phase II, limits. All violations noted during review were corrected.

**Carol Henry**, general manager of the casino said Mr. Sze could not be present today.

**Commissioner Ludwig** said this is another case where they were paying the City too much in taxes. **Ms. Henry** said that six weeks out from the Phase II investigation, she lost a financial manager and a surveillance manager and so what she did in the interim was to hire a financial manager during the Phase II. Knowing that obligation that she had to Shoreline, she overpaid it deliberately knowing in the next quarter they could resubmit. She felt it would be better to overpay it than to try to figure out herself because she is not a qualified accountant.

**Commissioner Ludwig** wondered why this was held over from a previous meeting. **Ms. Henry** said there were several infractions that weren't serious, but there were many of them. In the interim of hiring a surveillance manager and a financial manager, she held it together herself. And although the infractions weren't serious, several things got behind in that period of time so the Gambling Commission recommended that they hold off for 30 days so that they could come back in and reinvestigate to make sure that when her management was rehired and properly trained that it didn't fall down again and it didn't and they have been investigated twice since then. It was never their intent to fall behind; they just lost two key employees. **Commissioner Ludwig** asked if they were too busy. **Ms. Henry** said they are across the street from the Drift On Inn and in direct competition and they were competing with them. Their business was a lot better until December when they got their Phase II, so

their business fell down some, but they are doing an okay business. She said that when she lost the surveillance manager and financial manager, that required them to rehire and during the interim some of the things got out of compliance with their ICs. There was no licensing issues, no revenue issues, no card issues, no chips issues, but there were some IC incidences that did get out and they were able to pull those back in. She has since hired a surveillance manager and trained him herself and a financial manager who has helped them greatly.

**Commissioner Ludwig** asked if Mr. Sze is active in the operation of the casino. **Ms. Henry** said he was the CEO. He has no gaming knowledge, so he is directly responsible for the sports bar and the restaurant and he meets with her almost daily when he's in town. He's just out of the town for the past three days. **Commissioner Ludwig** said that in this business, no matter what the reason, if they can't keep up – whether its because employees have left or not – if they can't keep up under Phase I, should they be operating at Phase II. Ms. Henry said she feels that the things they didn't keep up on were jeopardizing the license. She said that they are one of the few who have not misplaced even one deck of cards. She has 25 years in the industry and she is able to give the training that's needed to keep it operating.

**Commissioner Herbold** said she thought she heard Ms. Henry say the restaurant is not doing very well. Ms. Henry said no, she just meant the food is not as good as it used to be, but it's still doing okay. **Commissioner Herbold** asked if it was originally the primary business – a sports bar and restaurant. **Ms. Henry** said absolutely.

**Commissioner Forrest** moved that the licensee be approved for implementation of Level II, Phase II. **Commissioner Heavey** seconded the motion. *Vote taken; motion carried with five aye votes.*

#### **OTHER BUSINESS / GENERAL DISCUSSION / COMMENTS FROM PUBLIC**

**Chairperson McLaughlin** called for any further discussion of any kind. She announced the room must be cleared for the executive session and then announced that they would return for the general session, but only to adjourn, and that the group could wait outside the doors or they could return for tomorrow's session. She thanked the RGA for the videos they gave to the Commission. During the meeting, she received a fax from a company that was addressed to everyone and they wanted to put on the house banking program as soon as the rules were approved, so she gave that to Ms. Winslow.

#### **EXECUTIVE SESSION**

**MEETING ADJOURNED** until Friday, April 9, at 9:30 a.m.



## WASHINGTON STATE GAMBLING COMMISSION

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### MINUTES COMMISSION MEETING FRIDAY, APRIL 9, 1999

**Chairperson McLaughlin** called the meeting to order at 9:30 a.m. at the Inn at Semiahmoo, Blaine, Washington. She introduced the WSGC staff and Commission members at the head table.

#### MEMBERS PRESENT:

**LIZ McLAUGHLIN**, Chairperson;  
**MARSHALL FORREST**, Vice Chair;  
**EDWARD HEAVEY**;  
**CURTIS LUDWIG**; and  
**PATRICIA L. HERBOLD**

#### OTHERS PRESENT:

**BEN BISHOP**, Executive Director;  
**SHERRI WINSLOW**, Deputy Director, Operations;  
**ED FLEISHER**, Deputy Director, Policy and Government Affairs;  
**CALLY CASS-HEALY**, Assistant Director, Field Operations;  
**DERRY FRIES**, Assistant Director, Licensing Operations;  
**BOB BERG**, Assistant Director, Special Operations;  
**AMY PATJENS**, Manager, Communications and Legal Dept.;  
**TERRY WESTHOFF**, Financial Investigations Unit;  
**JONATHAN McCOY**, Assistant Attorney General; and  
**SUSAN YEAGER**, Executive Assistant

#### APPROVAL OF THE MINUTES FROM THE MARCH 11 AND 12, 1999, MEETING

**Chairperson McLaughlin** asked if there were any changes to the minutes from the March 11 and 12, 1999, Commission meeting held in Olympia, Washington. There were no changes noted. She said the minutes stand approved as written. She said the staff report will be delayed until Ed Fleisher arrives.

#### RULES UP FOR DISCUSSION

##### BINGO RULES

Amendatory Section WAC 230-20-115 – Gift Certificates -- Requirements

Amendatory Section WAC 230-20-125 – Discounts and promotional gifts – Authorized -- Limits

New Section WAC 230-02-145 – Promotional marketing gift defined

Amendatory Section WAC 230-20-242 – Activities conducted as a part of bingo games – Authorization -- Restrictions

Amendatory Section WAC 230-20-230 – Free games for winners -- Restrictions

**Ms. Patjens** said five rules are up for discussion that were filed after the last Commission meeting. These are rules the commission staff worked on in conjunction with nonprofit organizations from Yakima County as well as with the WCCGA. Item 3(a) deals with gift certificates and currently a bingo operation can issue a gift certificate as a prize as opposed to issuing the person cash or merchandise. This is an incentive if they have a gift certificate, of course, to come back to the bingo hall and play again. Under the current rule they can issue gift certificates four times a year. Under the proposed rule, there would not be a limit. Under the current rule, the value of the gift certificates is limited to \$40. Under the proposed rule, that would be increased to \$50.

**Ms. Patjens** said Item 3(b) deals with the discounts and promos that operators can have. Under the current rule, they can give discounts and promos eight times a year. This is giving a gift or a discount of nominal value and, under the proposed rule, that would be increased to 12 times. The value of the gift has also been increased from

\$3 to \$5. The rule included in the agenda does not include those strike-outs and that was just an inadvertent error. The rules did get filed correctly.

**Ms. Patjens** said Item 3(c) is the definition of a promotional marketing gift. Item 3(d) just needed to be reworded so that it would be consistent with Item 3(a). Item 3(e) deals with activities that are conducted as part of bingo games and just allows an organization to use the actual bingo cards instead requiring the separate tickets be done if they want to. They may say that a certain number of people who have won the bingo game will be entered into a drawing and then win a prize. The last change was made to prize schemes so they could allow for good neighbor games, buddy bingo, and similar games.

**Chairperson McLaughlin** asked if anyone wished to comment and no one came forward. She said the rules would be on the agenda for possible final adoption at the May meeting.

## **STAFF REPORTS**

### **1999 LEGISLATIVE SESSION**

**Ed Fleisher** said one bill is still alive after the last cutoff. Committee action has been completed and there are two weeks left for floor action and dispute resolution between the two legislative houses. The legislation to reduce the local tax on the charities and nonprofit organizations from 10 percent to 5 percent is in the House Rules Committee; it has already passed the Senate and it is still alive. There will be an interim study with an eight-member committee looking at gambling issues, particularly charities and problem gambling. This issue can be brought up until the last day of session by resolution.

**Mr. Fleisher** said agency request legislation from the Gambling Commission did not get out of the House Committee. There are some members who have concerns about it and want to get together with the staff over the interim and discuss it and run it next year.

**Chairperson McLaughlin** asked what the concerns were. **Mr. Fleisher** said it was the sensitivity of the non-conviction data and how that's handled internally. Some of the members were concerned about that and wanted to hold that off until next year. **Chairperson McLaughlin** said it seemed to her all gambling bills were being held off until next year.

**Commissioner Heavey** asked what happened to the moratorium bill. **Mr. Fleisher** said it did not make it out of the Senate Commerce and Labor Committee. **Chairperson McLaughlin** asked if any of the bills could be revived. **Mr. Fleisher** said that anything can happen until they adjourn sine die, which means any of the bills that did not make it past the normal cut-off process could still be revived through a floor amendment or something similar.

## **CARD ROOM RULES**

**Chairperson McLaughlin** said the testimony on the card room rules will be limited to four minutes per speaker.

### **A. General Card Games**

- a) Amendatory Section WAC 230-40-010 – Types of card games authorized
- b) Amendatory Section WAC 230-40-015 – Rules by which the authorized card games shall be played
- c) Amendatory Section WAC 230-40-030 – Number of tables and players limited
- d) Amendatory Section WAC 230-40-050 – Fees for Card Playing – Method of assessment and collection – Maximum fees
- e) Repealed Section WAC 230-40-060 – Persons shall not share in winnings or charge additional fee for playing cards
- f) Amendatory Section WAC 230-40-070 – Licensee to furnish all cards, chips and other services
- g) Amendatory Section WAC 230-40-120 – Limits on wagers in card games
- h) Amendatory Section WAC 230-40-125 – Washington blackjack – Rules of play – Wagering limits
- i) Amendatory Section WAC 230-40-130 – Wagers to be made with chips only
- j) Amendatory Section WAC 230-40-150 – Side bets prohibited
- k) Amendatory Section WAC 230-40-160 – Wagers by other than participants prohibited

- l) **Amendatory Section WAC 230-40-200 – Participants to compete on equal terms – Deal to rotate among players**
- m) **Amendatory Section WAC 230-40-225 – House dealer allowed in certain games**
- n) **Amendatory Section WAC 230-40-400 – Hours ((limited)) for card games – Procedures for changing hours**
- o) **Amendatory Section WAC 230-50-010 – Adjudicative proceeding – Hearings**
- p) **Repealed Section WAC 230-40-900 – Public card room enhancement program – Pilot study and test**

**Ms. Winslow** said she would present each section of the rules separately, highlighting only those rules that include changes or alternatives from that last meeting. She said the first section is general card games, which includes subsection (a) through (p). The first change she highlighted was amendatory section WAC 230-40-030. The original version increases the tables to 15 and players are limited to 10 for non-house-banked games and 7 for banked games with 9 spots for banked game wagering. There are alternatives for this rule, and the first one eliminates the ability for the operator to allow 9 spots for wagers at house-banked games. A second alternative reduced the number of tables allowed in a public card room from 15 to 10. Those are the alternatives for this WAC.

**Commissioner Herbold** said that on alternative number two, which is the one she had suggested for purposes of discussion, she had intended that it would be limited to 7 players and no additional spots. Ms. Winslow said they missed that. She said she filed alternative number one, which was not for 9 spots, and she had intended 10 tables, 7 spots/players, no additional spots. **Director Bishop** said he didn't think that would be a problem. He said that it's on the table and people have been put on notice that it is one of the issues. **Mr. McCoy** agreed with that.

**Ms. Winslow** said the original version of WAC 230-40-120 establishes wager limits for non-house-banked and house-banked games. Non-house-banked games have five betting rounds with maximum wagers in a round to be comprised of an initial bet with three raises. A single wager cannot exceed \$25. House banked games have single wagers that can't exceed \$25 except for Phase II, which allows for \$100 wagers. Also, PSJs are not allowed to exceed one dollar. The first alternative that they have to this WAC rule further limits wagers for card games as follows: Non-house-banked games – for poker games, the total wager per player, per hand, is limited to \$250. For house-banked games, the wager on Phase II limits would go from \$100 to \$50.

**Ms. Winslow** said amendatory section WAC 230-40-400 is the procedures for changing hours. For the original version, this limits the hours for owners of multiple locations to the same operating times. As for alternatives, the first alternative brings back the requirement for concurrence by local law enforcement and other state regulatory agencies. The second alternative changes the limitation on hours for owners of multiple operations to "adjacent" facilities rather than facilities within one mile of another. The third alternative requires closure of card rooms from 2 to 6 a.m. A fourth alternative requires closure of card rooms from 4 to 8 a.m.

**Ms. Winslow** said the next section – Player supported progressive jackpots – has subsections (a) and (b) and there were no changes in that section.

**A. Player Supported Progressive Jackpots**

- a) **New Section WAC 230-40-600 – Authorization procedures for player supported progressive prize contests**
- b) **New Section WAC 230-40-610 – Player supported progressive prize contest – Restrictions – Manner of conducting – Approval**

**Ms. Winslow** said that in Section C – house banked card games, an additional requirements for PSJs and specific fee assessment and collection methods. She said the first alternative with a change is WAC 230-40-820 and that this original version enhances the licensee's control system by requiring an internal control evaluation. The evaluation should determine whether internal controls actually exist, that they're operating as stated, and the controls are adequate for the size of operation for the facility. The internal controls are meant to safeguard assets, enable the evaluation of the organization's efficiency, promote reliable accounting records, and encourage and measure compliance with the Washington Administrative Code and RCWs. The alternative from the last meeting requires that if a contractor is used, they must have adequate knowledge and experience in gaming and a CPA license.

**A. House Banked Card Games and Additional Requirements for PSJ's and Specific Fee Assessment and Collection Methods**

- a) **New Section WAC 230-40-800 -- Adoption of rules for house banked card games**
- b) **New Section WAC 230-40-810 -- Authorization procedures for phase II wagering limits for house banked card games**

- c) **New Section WAC 230-40-815 -- House banked card games - Management and accounting control structure -- Organization of gaming operation**
- d) **New Section WAC 230-40-820 -- House banked card games -- Internal control evaluation -- Required procedures**

**Chairperson McLaughlin** asked what happened when Mr. Balam spoke about a service provider being able to do it if they had an accountant on their staff. **Ms. Winslow** said Mr. Balam provided the Commission with copies of his proposal and it was not filed at the last meeting and there should be a copy of the report from Assistant Director Cass-Healy in the supplemental handout packet. At this point in time, they only gathered preliminary information as to costs. She said it is a lot easier to determine what the agency's costs are, but in discussions they had with outside contractors, they need to have very specific information about the type of work that needs to be done so that they can come up with cost estimates. They have not had enough time to come up with a detailed summary of what those would be. She said there had been discussions about sitting down with various contractors, whether they be service suppliers, licensed CPAs or service suppliers with licensed CPAs, to determine what those costs would be.

**Chairperson McLaughlin** said that what she really wanted to know was whether they would have this as an alternative. **Ms. Winslow** said they could, but they would have to be filed, which was not done at the last meeting. **Chairperson McLaughlin** asked if, to be able to consider it, it would have to be filed. **Ms. Winslow** said yes. **Chairperson McLaughlin** said it would have been helpful to receive Mr. Balam's report prior to this morning. **Director Bishop** said the staff was trying to work on this, but they could not get to everybody to give a final report. **Chairperson McLaughlin** acknowledged the staff had been under a lot of pressure.

**Commissioner Forrest** asked if Director Bishop had a preliminary feel as to whether it would be feasible and desirable to do it all in-house so far. **Director Bishop** said the positive part of it would be that the staff would control it and would know what was going on if they did it all in-house. But that would require staffing levels over and above what they had planned to date. On the other hand, it is sometimes better to get another perspective and even if it were done in-house, he would tend to want to have people do this work who did not routinely do the day-to-day work. He said having a contractor or a consultant is a different outlook. He said that, in the process they are discussing, it is absolutely necessary to look under the surface to see if it is a total compliance picture and question whether or not it would work. From that, the expertise lies in-house. The cost might be prohibitive because it would be necessary to have a separate section to do this type of work in order to get the type of independent perspective needed.

**Commissioner Forrest** pointed out that there would be costs for contracting out as well and it is really a question of whether to pay someone else to do it or pay to do it in-house and he did not know which would be more expensive. **Director Bishop** said it would be a cost to the operator in any case. He said that once they got an estimate from at least two outside CPAs that they would have a better chance of saying which way to go. Mr. Balam's suggestion last month sounded fine to him. The problem goes back to Director Bishop's own professional background and the fact that he is a licensed CPA and knows that he cannot rely on someone else's work if he is going to give a report that someone relies on. So, therefore, he is not sure about the feasibility of it himself because he would have to have qualified people who would meet the standards under his accounting board standards. That typically means people trained as accountants and operating under the supervision of someone that is licensed to do it. That's another factor that they will have to look into the evaluation of his proposal.

**Chairperson McLaughlin** said that might be something they could deal with after the permanent rules are actually voted on, because they would be voted on at the May meeting.

**Director Bishop** said it could be done that way. Once they get into the fact that they need this procedure and if they go to full staffing levels, they could immediately file something to amend that or within the time constraints of the Code Reviser. They don't allow immediate modification, but sometime within the first operating year, they could accomplish that.

**Commissioner Herbold** said the original version of WAC 230-40-820 had an underlined portion with a proviso added that says a review will not be required for an operator who has undergone a Phase II review within the last six months of the license year. She wondered if that should be discretionary with the Commission staff. She

said it sounded like “you shall not do it” and she thought there may be a situation where they might be a little bit concerned about one of the operators and might need to do something within that six-month period. **Ms. Winslow** agreed and said that was an oversight and would be corrected. **Commissioner Herbold** also pointed out in paragraph two a change from operating year to license year and asked Ms. Winslow to explain what the significance of that is. She wondered if an operator gets a license on December 1, then they are talking about the license year from December 1 to the end of November the following year, as opposed to a calendar year. She wanted to know how an operating year differed from a license year. **Ms. Cass-Healy** explained that an operating year would be considered their fiscal year, whereas the license year does not always agree with the fiscal year. The license year is the annual period of their license. **Commissioner Herbold** then asked if the staff wanted to do their annual review within the license year, not the fiscal year, necessarily. **Ms. Cass-Healy** explained that that is an easier benchmark for the staff.

**Commissioner Herbold** pointed out that on the first alternative, in paragraph four, “The director may contract for services as deemed necessary,” she wondered what criteria was used for what’s “deemed necessary.” She wondered if there were any benchmarks or factors that they look for on that. **Director Bishop** said he thought they would look at their own staffing if they had people available, that they would like to keep their people going. **Commissioner Herbold** asked if that meant that it was a staff issue, primarily. **Director Bishop** said yes. **Ms. Winslow** said the “deemed necessary” was to primarily use the staff if they are available, and then if at any point in time they don’t have Gambling Commission staff available, they would use the contract services. **Director Bishop** said these would be engagements that they could schedule since they were going to do them on an annual basis.

**Ms. Winslow** said the next section, there was a staff clarification on the full time surveillance. The staff clarified this rule to state that licensed employees may provide temporary relief for surveillance staff if they’re not performing incompatible functions and that was based on testimony last month. Operators expressed concerned and the staff looked at the issue and felt that’s as far as the agency could go to provide relief in this area. The regulatory concerns were strong enough that they couldn’t back away from requiring somebody full time in the surveillance room.

**Commissioner Forrest** said that after watching the operation in Burnaby, it seemed to him that the act of surveillance is a sampling – and a small sampling at best. He wondered if they were to assume that in his own self interest the operator is going to use sampling in the most effective way to prevent being ripped off by some collusion between players and dealers and so forth. He said he assumed they keep tapes, so that if there’s a complaint or if some other undercover investigation has led to questions, one could go back and check on a particular operator, particular dealer, particular table, etc. The one thing that he was most impressed by was the degree of detail that one could get and is available later on. The same way the man demonstrated to them that he could zero in and read the chip and so forth wondered if they would have the same advantage of being able to zero in and see the detail that the operator showed Commissioner Forrest the night he was observing the play. **Ms. Winslow** said that in general they should be able to, but the clarity that he saw at the Canadian operation was very accurate. That was state-of-the-art technology. The WSGC staff works all the time with the licensee groups to make sure that they have adequate coverage and that’s why they are very detailed in the area of what needs to be covered and it’s not only covered while somebody’s watching by also on the tapes.

**Chairperson McLaughlin** said that what she found interesting about last night was that the security rooms she has seen in the enhanced card rooms she visited have every table covered. There might be 30 monitors because they have the outside of the building, they have the inside and so on and obviously that facility wasn’t covered like that in the security room last night. **Director Bishop** said the routine procedure for a large casino is not to have 150 monitors because they could not sit and look at them all the time, so it is more or a testing or sampling. It works two ways; either someone on the floor will say, “We’ve got a problem over here,” or all of their floor people wear headsets and when they are getting ready to do fill they would say, “Fill on table 14.” The people in the surveillance room would then switch to that and tape that fill. He said they have not required that level of sophistication in the enhanced card rooms. He said Commissioner Forrest was relating to the fact that there needs to be a scheme within surveillance. Trained people are needed and they must have a routine where eventually they will look at everything as well as receive input from the floor by saying, “I want someone looking at table so-and-so.” They have the backup tapes on every camera. **Director Bishop** said if he could have his wish he would like to have systems like they had at the casino, but he said he thinks they are very expensive.

- a) New Section WAC 230-40-825 -- Closed circuit television system requirements and procedures

**Ms. Winslow** said WAC 230-40-845 outlines check procedures required in addition to those already required by WAC 230-12-053. The alternative that was requested at the last meeting prohibited the cashing of third party checks at the cashier's cage.

- b) New Section WAC 230-40-830 -- Cashier's cage -- Requirements

**Chairperson McLaughlin** thanked Commissioner Herbold for proposing the alternative; however, she talked with Gary Hansen of the Council on Problem Gambling, and he polled psychologists who work with problem gambling, a recovering problem gambler, and an owner-operator of an establishment, and they all said that the third party check isn't the problem. If a person is a problem gambler, they will find ways of getting money to gamble.

- c) New Section WAC 230-40-833 -- Cashier's bank and minimum bankroll
- d) New Section WAC 230-40-835 -- Accounting controls for cashier's cage
- e) New Section WAC 230-40-840 -- Drop boxes -- Requirements
- f) New Section WAC 230-40-845 -- Procedures for exchange of checks submitted by gaming patrons at cashier's cage
- g) New Section WAC 230-40-850 -- Procedures for accepting cash at house banked gaming tables
- h) New Section WAC 230-40-855 -- Acceptance of gratuities from patrons for house banked activities
- i) New Section WAC 230-40-860 -- Table inventories and procedure for opening tables for house banked card games
- j) New Section WAC 230-40-865 -- Procedure for distributing gaming chips and coins to house banked gaming tables -- Requests and fills
- k) New Section WAC 230-40-870 -- Procedure for removing gaming chips and coins from house banked gaming tables -- Requests and credits
- l) New Section WAC 230-40-875 -- Procedures for closing house banked gaming tables
- m) New Section WAC 230-40-880 -- Count room -- Requirements
- n) New Section WAC 230-40-885 -- Counting and recording contents of drop boxes -- Procedures
- o) New Section WAC 230-40-890 -- Signatures -- Requirements

**Ms. Winslow** said section D includes subsections (a) through (j) and there were no changes to that section.

**A. Card Room Definitions**

- a) New Section WAC 230-40-550 -- Player supported progressive prize contest
- b) New Section WAC 230-40-552 -- Incompatible functions defined
- c) New Section WAC 230-40-554 -- Drop box defined
- d) New Section WAC 230-40-556 -- Cash equivalent defined
- e) New Section WAC 230-40-558 -- Prize fund custodian defined
- f) New Section WAC 230-40-560 -- Chief executive officer/chief operations officer defined
- g) New Section WAC 230-40-562 -- Gaming operations manager defined
- h) New Section WAC 230-40-564 -- Shift manager defined
- i) New Section WAC 230-40-566 -- Floor supervisor defined
- j) New Section WAC 230-40-568 -- Dealer defined

**Ms. Winslow** said section E consists of subsections (a) through (o) and they had one modification to WAC 230-12-345. There was a provision added to this WAC to amend the fees that are allowed for electronic daubers on the amount of usage, and that is just to stay consistent with what's allowed in today's regulatory environment.

**A. Other Rules Relating to Card Rooms**

- a) New Section WAC 230-02-109 -- Net win defined
- b) Amendatory Section WAC 230-02-110 -- Gross gambling receipts defined
- c) Repealed Section WAC 230-02-400 -- Card game
- d) Amendatory Section WAC 230-02-425 -- Key employee defined
- e) Amendatory Section WAC 230-04-022 -- Certification procedure -- Information required from all applicants
- f) Amendatory Section WAC 230-04-140 -- Licensing of public card room employees
- g) Amendatory Section WAC 230-04-203 -- Fees -- Commercial stimulant and other business organizations
- h) Amendatory Section WAC 230-04-204 -- Fees -- Individuals
- i) New Section WAC 230-04-205 -- House banked card games -- Authorization procedures
- j) Amendatory Section WAC 230-08-040 -- Sales invoices -- Minimum information to be recorded for transfer of gambling equipment and merchandise Retention -- Penalties
- k) Amendatory Section WAC 230-08-090 -- Daily records -- Card games
- l) New Section WAC 230-08-027 -- House banked card games -- General accounting records to be maintained
- m) Amendatory Section WAC 230-12-050 -- Extension of credit, loans, or gifts prohibited -- Limited exception
- n) New Section WAC 230-12-072 -- Player supported progressive prize contest funds -- Deposit requirements

**Chairperson McLaughlin** asked why daubers are included in card room rules. **Ms. Winslow** said this is a general section so when they added the detail for the card room activity they recognized that the way the language was structured prohibited the current sales method for the electronic daubers and that wasn't intended, so they thought that they needed to amend that. So, even though this is a card room package, they wanted to correct the language.

**Ms. Patjens** suggested going over the next set of rules prior to public testimony on the card room rules.

## **RULES FOR DISCUSSION AND POSSIBLE FILING**

### **WASHINGTON BLACKJACK**

#### **Amendatory Section WAC 230-40-125 – Washington Blackjack – Rules of play – Wagering limits**

**Ms. Patjens** said there are two rules up for discussion and possible filing today. They are Item No. 5 Washington Blackjack and the staff is asking that these alternatives be filed similar to how alternatives were filed last month. She pointed out that in their packets under Tab 7 there is a recap of the actual testimony that was given -- not only by this agency but also by many card room operators -- when the Legislature was considering the house-banking bill. Then, at the last Commission meeting, Chairperson McLaughlin had asked the question about how many businesses are currently offering Washington Blackjack and under Tab 20 there is information about that and they found that there were 21 card rooms that are currently offering Washington Blackjack and 18 use center dealers.

**Ms. Patjens** said the first alternative would state that the minimum bank for Washington Blackjack could not exceed \$500. Right now there are no limits on the bank. It also would decrease the number of decks in a shoe from six to two and the effect of that would have more to do with what happens in the other part of the rule. It would make it so the dealer would have to pass more quickly. This alternative would also make it clear that if a player passes on dealing, then they have to sit out and can't play in the next two hands. The last thing is that it would remove the house dealers so that all of the dealers and bankers would essentially be lay people. The other alternative is to completely repeal Washington Blackjack. The rationale behind that is that when the law was passed, part of the reason it was passed -- at least based on the testimony -- was that there are some difficulties regulating Washington Blackjack. Now, if people want to play Blackjack in this state, they would be doing it under the house-banked scenario as opposed to continuing on with Washington Blackjack. The staff recommends that these rules be filed for further discussion. They talked a little bit about the Washington Blackjack rule that was filed last month under 4A(h). If these alternatives are filed with the Code Reviser, next month they would not be able to finalize that Washington Blackjack rule. They would have to hold that over an extra month.

**Commissioner Forrest** said he gets the feeling that Washington Blackjack was created so the state could have Blackjack under the then-regulatory environment. The flavor of these remarks is that now that Blackjack is centerpiece of card room gambling, this is kind of a peripheral and is no longer needed any more. He asked if his feeling is correct.

**Ms. Patjens** said it is difficult to regulate, particularly if a business doesn't have to have surveillance, and they don't have to have surveillance if they're just doing the per-hand fee. That makes it really hard to discover problems, short of having agents go in and do undercover investigations.

**Commissioner Herbold** asked if this is also a situation where they are requiring employees and everybody else associated with an operation to be licensed, but in Washington Blackjack, they can have a professional gambler come in and pretty much control a game and not be licensed. **Ms. Patjens** said yes, and that is an important point throughout the testimony that was given a couple of years ago when the law was passed. **Director Bishop** said it is prevalent today where someone comes in for the purpose of just banking the game. They are not required to have qualifications. He said this is a great concern to him. **Chairperson McLaughlin** said that was why they had house banking now because there was no way to regulate unlicensed dealers in Washington

Blackjack. **Director Bishop** said that when this first came in 1988-89 as a test first, it was to find a way to get it done and there were very specific rules on how it had to be done under the statute. It was still then maybe a little on the gray side, and they started off with two decks so the deal had to pass fairly rapidly. Everybody had to deal or sit out. Therefore, the way of getting around it being a game of skill in the long run is the fact that everybody got a chance to deal, so eventually everybody had the same odds although the odds were in favor of the dealer. Other little nuances that over time changed to try to enhance the card rooms was to increase the wager to \$25 while the other bets were limited to \$10, and also to allow a house dealer in this activity. Before it was a house dealer, it became very hard for the staff to walk in and find out who was actually dealing. And in cases, they found that people were somewhere else playing poker and acting as the dealer for a game at a different table or shooting pool. In some cases the dealer wasn't even in the location – they just came by and dropped off some money for the operator and went out about their business and they'd come back later and say, "Well, how did I do?"

**Director Bishop** said it was almost impossible to regulate under those conditions. He said they talked to one of the operators in his office who said it would really hurt him to do away with Washington Blackjack. But also this gentleman had cameras, he had a floor supervisor who watched the deal to make sure that things were getting passed. He had his own cashier's station and people went there to get their chips like the rule intended. At the end of their discussion, Director Bishop said it sounded to him like he was doing everything he needed to do for house banking, not just Washington Blackjack and he said, "Well, I'm waiting in the program to get it." And the staff suggested another alternative to require these things because a supervisor is required to monitor that the deal goes around and also that they have the cameras. He called back later and said that he withdrew all his comments and that he agreed with them. That the way to do it was to do away with it – just don't go back to where it was prior to that because it would be almost impossible for anyone to do.

**Chairperson McLaughlin** said that, if the Commission decided to do away with Washington Blackjack, they could pass the rule and give them 90 to 120 days to get it out of the establishment so that when they were waiting for house banking they still had a game. **Commissioner Ludwig** said if the Commission is going to do away with Washington Blackjack, they might as well do away with the six-month requirement as well. **Chairperson McLaughlin** said she didn't know exactly what he is referring to. She asked Ms. Patjens if she was just waiting for a possible filing of this rule. Ms. Patjens said they might want to hear the testimony first.

## **PUBLIC TESTIMONY**

**Bob Tull**, attorney for the Recreational Gaming Association, introduced a new lawyer in his office, Heather Wolfe. He explained that he is happy she can attend today's meeting because it is close to their office. He told the Commission that they have not orchestrated a big presentation today nor beat the bushes for people to come and testify. He said they did not represent through the RGA or all of the card room licensees past, present or future. They represent some and he has spoken to some of them and he has told them to keep in mind that the Commission is doing something that in one sense is usual with an elaborate process, but in another sense it is a little bit unusual in that it has put out some alternatives to provoke discussion and provoke sometimes results in people getting excited. He said they tried to express to everyone that the Commission's goal at least from an historic standpoint is to get all of the information it can and then go through a rationalization process and to those in the audience who testify, he said they already had seen today the commissioners are very open about their sorting of these things and he hopes that folks will have a lot of information for them and he has advised those he's spoken to not to hesitate to respond to any question the Commissioners may have and to expect some. He introduced Vito Chiechi, who is the executive director of the RGA.

**Chairperson McLaughlin** said she would limit presentations to three minutes because there were so many speakers.

**Mr. Chiechi**, RGA executive director, wanted to submit comments regarding the rules reducing the betting limits, hours of operation, number of tables. He said that if this was an opportunity to slow down the growth of card rooms, it has been successful already because over the last six months card room operations have slowed down. At one point there were more than 100 card rooms and today they are down to 40 that have existing businesses or will be coming online. He said that it is very expensive to put in a card room and that will dictate whether even



40 can remain open. He said that if the Commission feels that these rules will stop gambling, he said that they shouldn't just pick on card rooms, but to go to the Legislature and ask it to stop all gambling – lottery, horse racing, all forms of gambling -- because it is not fair to make rules like this that could shut down the card rooms. Card rooms make up only 3 percent of all gambling dollars in the state. The card room industry is not out of control because if it were, in the 1998-99 Legislative session, there would have been legislation passed to change things.

**Mr. Chiechi** said the cities are currently using their 20 percent tax to limit card rooms. He said the Commission's alternative rules would do the same thing. He believes these rules will destroy the card rooms' ability to compete. In the 1997 legislative session, the enhanced card rooms were approved to allow them a way to compete with the tribes, and these alternative rules would give it right back to their competitors – the tribal casinos. They have no limit on hours of operation and they have a \$500 betting limit to the card rooms' \$100 betting limit. They have 52 tables to their 15 tables. The RGA did a survey of its members and found there are 4,000 employees in the card room operations and 1,000 waitresses and bartenders, security and maintenance people. There are also about 1,000 vendors who work with the industry, so there are a total of some-6,000 employees affected by these rules. There could be approximately 50 percent of the industry losing jobs or 3,000 real jobs. The RGA feels that this is something the Commission must take into consideration when making their decision. The Legislature will be looking at all of these rules in the next session and he requests that the Commission wait until the Legislature takes a look. He presented a letter they have submitted to the Legislature.

**Commissioner Ludwig** said that, in view of Mr. Chiechi's last comment to wait, he would like to remind him that a year-and-a-half ago the industry was urging the Commission to hurry up and do this. He said back then he recognized some of the problems that they would be facing were due to the Commission rushing the temporary rules and the pilot program. And now they are here trying to slow the Commission down. Commissioner Ludwig said they should have slowed down a year-and-a-half ago, but the industry didn't want them to, which frustrates him.

**Steve Downen**, president of the RGA and also owner of the Riverside Inn, said he would like to comment on three of the proposed alternate rules that have been filed with the Commission. 1) Changing the hours of operation. Currently they choose the hours they would prefer, assuming that they can get local approval. He said that back when they were closing at 2 a.m., his clientele would car pool at closing time and go to the nearest tribal casino and he would be empty because the tribal casino could stay open until 6. Eventually the Commission allowed them to stay open and they were able to compete with casinos. He urged the Commission to maintain the rule as it now is. 2) Lowering the number of tables to 10. He said that if they are required to reduce their tables from 15 to 10, they will have to reduce their work force by 33 percent and for him at the Riverside that means 60 people and for the industry it's hundreds. He said that no one warned them early in the test that they might be facing 10 tables and now they will lose their investment in all of the equipment and training required to set themselves up for 15 tables. He said he was also unsure if they could operate to the standards required with less than 15 tables. 3) Lowering the betting limit. He said that he produced little to no profit as he increased the number of tables under the \$25 betting limit. Then he received his \$100 limits in June of 1998, and finally in the last quarter of '98 he turned a profit.

**Matt Daly**, Michels Development Company, said that in reading the staff report and in listening to Senate testimony at the Legislature, he could not find a listing of significant problems with regard to crime, increased traffic accidents, or any other form of social unrest in general. It is his opinion that the public has shown strong support for this industry. He thinks the bills have not made it out of committee because there is no public support for them. He said the press has been unfair and not factual. He commended the Commission and the Commission staff for adopting a set of internal control standards and regulatory procedures that have made this industry the most highly regulated form of gaming in the country. He said the hands-on review and audits by the investigators leave no stone unturned in these operations and owners are held accountable.

**Bruce Meyers**, Michels Development Company, said he is highly experienced in all facets of gambling and has worked all over the country and is in a position to know that Washington State Gambling personnel do a very effective job in regulating the industry. He said the industry is much better off with house banked games, but it is also very expensive for small operators to meet these standards. He said the \$100 betting limit is extremely low in comparison to other jurisdictions where the owner determines the betting limits after taking into consideration

the house bank roll, competition, and ability to take risk. Higher limits allow a player to recoup losses and get even. The lower limits reduce profits and jeopardize the mere existence of the card rooms. He pointed out that he comes from jurisdictions where people bet as much as \$250,000 a hand and losing \$26 million in a period of two weeks. He believes closing at 2 a.m. is a mistake because it places hundreds of people on the streets at the same time. Allowing people to leave gradually reduces safety hazards.

**Max King** said he is the supervisor at the Double Down said his clientele is after 2 a.m. when people get off work and want to come and unwind. He said that, because bars close at 2 a.m., their establishment gives people a chance to eat, relax and sober up before they leave. Scaling down to 10 games in addition to closing at 2 a.m. will require him to reduce his staff and he does not look forward to having to do that. He said he has good, hard-working people who work for him. They've got to generate the revenue to justify its existence.

**Gary Murrey**, Wizards Casino, said all four proposed amendments would affect his card room. He said they had a successful opening and they are busy. He said his clientele like coming when they want, leaving when they want and enjoying the limits that they want, whether that is \$5 or moving on up – it is what the customer wants. If the customer didn't want it, they wouldn't be offering it. At the current levels, they are not profitable yet and any one of these cuts will hamper their progress to profitability. All the cuts would force them to close. He said when he came to the community he promised to give back to the community. He matches his employees' gifts to the people of Kosovo because that's what they want to do, but if he cannot make a profit, he cannot keep his promise to give back to the community. He also is concerned about his promises to take care of his employees and these cuts would force him to cut back on these promises as well.

**Commissioner Heavey** asked if his inability to make a profit was due to amortization of his initial investment.

**Mr. Murrey** said he had not taken any amortization at this point. He has taken strictly dollar gains from food and beverage and their win-loss against their employee costs and their materials costs and their electrical bills and so forth. He said he doesn't even pay rent for the first two years on his property and I still is not in the black.

**Commissioner Heavey** asked if he means that his cash outflow is not being matched by cash inflow. **Mr.**

**Murrey** said yes, and he said that when almost every single \$25 establishment is started the start-up costs and the employee costs overrun that figure and 99 percent of the clubs that open until they reach a point of operating at a four to six months, build up a clientele and get the higher limits and have customers that are going other places, get what they want. He said customers would not come unless they could get what they wanted.

**Dave Pardey**, Skyway Park Bowl and Casino, said he has been in business since 1983 and 40 of his 215 employees were formerly on public assistance. If any or all of the items up for change take place, it would destroy them. 1) He said the 15 tables were necessary because the traffic varies during the week from 8 to 10 tables Sunday through Thursday and then a high volume Thursday, Friday and Saturday helps cover all of the expenses. 2) He said that lowering the \$100 betting limit takes all the fun out of gambling even though gamblers don't always gamble \$100 – they like the option to do so if they get on a roll and it is to their advantage. He said that, with the exception of Pai Gow where they do start betting \$100, most people are buying in for \$30, \$40, \$50. But it is critical for the customer to know they can bet \$60, \$70, \$80, and if they can't, they'll go to the tribal casinos where they bet up to \$500 if they get on a roll. He said most people would go to the tribal casinos where they can bet more. 3) Gamblers are different than drinkers and other forms of what might be considered entertainment. When they come in to gamble at 10, 11, 12 o'clock at night, swing shift workers for example, they like to take their time. They are there for a few hours – not just a half-hour -- and they like to bet \$10, \$20, \$30 and take their time. If they have to close at 2 a.m., they will lose the swing shift people and after 10 o'clock at night, their casino will be dead because they don't have time to take their time. There would be too much pressure put on them to gamble like crazy and get out of there at 2 a.m. The King County Police love that they close at 6 a.m. because it's a tough area but Skyway Park Bowl has no problems.

**Commissioner Ludwig** told Mr. Pardey that his explanation of the weeknight and weekend traffic was very helpful in explaining why it's important to have the volume on the weekends.

**Keith Vormsberg**, Golden Nugget Casino, said he and his wife own a small casino for about four years although he has been in the industry since 1973. He said it is very expensive to get into the card room business and the proposed changes would be devastating to him.

**Shirley Vormsberg**, said she is mostly concerned about the employees who have worked for the Golden Nugget for years. She wants the Commission to really take into consideration that lots of these people have families and need this opportunity to provide for their families.

**John Horton**, employee of Chips Casino, Bremerton, said he is the father of four and works in security. He hopes the Commission will not legislate him out of a good job. He said it is a good place to work, there is little crime.

**Dawn-Marie Ordayme** said she is a dealer at Chips Casino. Since she's been working at Chips her life has improved with the better wages they pay. She is a single mother and can't support her child on minimum wage. If all these rules change, a lot of them are going to lose their jobs. She is proud that she can now support her daughter and wants to keep that opportunity. She urged the Commission to allow them to keep their jobs.

## RECESS

**Donna Harkness**, Jack Neimann's Casino, Bellingham, said that if the limits and number of games get changed, she will not be able to make the money she is now. She is presently trying to get custody of her son and before she didn't have the money to fight for him. If the rules get changed and the business goes down, the least she can expect is that her hours will be cut and the worst that could happen is that she could be laid off, which would put her back on state assistance. Then she would have to get trained to get something else to make this kind of money. She would lose her ability to fight for custody of her son. As a single parent, money is a big issue. She can go back and work as a dealer in a tribal casino, but she still needs help from the state for daycare, schooling, whatever and now she doesn't have to do that.

**Chairperson McLaughlin** asked if the tribal casinos pay less money. **Ms. Harkness** said if she went back to a tribal casino, she would have to go back to being a dealer at which rate they are paid minimum wage and the token rates are very low with the tribal casinos in this area.

**H.T. Higgins**, Players and Spectators, said his operation is located in Spokane. He pointed out that in 1998 there was a public outcry against the eight casinos in Spokane. Since that time things have quieted down considerably. Two casinos closed and the market seems to have reached an equilibrium, which says to him that the public was content with the way things were. His facility has 50,000 square feet, has been family owned since 1973 and they have more than 225 employees, 100 of whom are non-casino-related employees. With a change of limits, their facility would most likely close, which means that those employees will all bear the brunt of this closure. He hoped the Commission would understand how important it is that their facility and others that represent the intent of the 1997 legislation, which was to increase local businesses that were harmed by tribal other gaming in the area, be allowed to continue. They are a commercial stimulant operation.

**Rick Balam**, Balam Consulting, said he asked the Commission one more time to consider an alternative to WAC 230-40-820, which is the evaluation of the internal control structures still based on the same concepts that he testified to last month in Spokane. That was basically to allow approve service providers to evaluate the system of internal and administrative accounting controls for house-banked gaming operations. Part of that would also include due responsibility for reporting of compliance issues, which would be incumbent on both the service provider and the casino to report those problems. Also that the people doing the actual auditing would be the person to have at least two years of Washington State gaming experience in the internal audit function and that the service provider would either contract or have a certified public accountant on staff.

**Chairperson McLaughlin** said that in other words, it would be mean a contractor to a contractor subcontractor. **Mr. Balam** said yes.

**Commissioner Forrest** asked what his ballpark estimate was of what this service would cost the operator. **Mr. Balam** said currently, due to the fact that there were no stringent guidelines as to the number of minimum hours, they are working on two structures. One is a quarterly audit that they are doing, which takes about 16 hours of onsite and then a couple of hours of report time and they are charging about \$50 per hour for that service.

**Commissioner Heavey** asked if, when he said it is their intent, would that not be included in the rule. **Mr. Balam** said he didn't believe it specifically said that but that would be their intent – they could change that.

**Commissioner Heavey** asked if they would have no objection to change their proposal to having a CPA on staff who shall sign off on the audit. **Mr. Balam** said he had no objection to that at all. **Commissioner Heavey** said his thought was that that was similar to in land use; somebody else develops the plans and then a certified engineer signs off on it and that engineer is then responsible for those plans.

**Commissioner Ludwig** asked if the audit report for “unnamed business” was an actual audit performed. **Mr. Balam** said yes, this was an actual audit that was performed on March 30 and 31, 1999, and this is just a sample of what they’d do for the audit process. He said it was 16 hours onsite and then three-and-a-half hours of report preparation time at \$50 per hour.

**Commissioner Herbold** said that, in her reading of this, it is a required procedure, which means that the staff would have to find a service provider and could not use internal staff. **Mr. Balam** said that was not their intent and was probably a misstatement in the first paragraph. He said they want to work with the staff on this as much as possible as they had in the past.

**Commissioner Heavey** said that what he was saying was that if the card room contracts outside for the audit, then these requirements must be met. **Mr. Balam** said that was correct. **Commissioner Heavey** said that they weren’t saying that the card room must contract with an outside entity. If the staff wants to the audit, they can do the audit. **Mr. Balam** said that was absolutely correct. Part of their intent is the fact that the staff at least at this time probably doesn’t have the manpower to do that particular job.

**Chairperson McLaughlin** said that it wasn’t stated whether the public accountant they used had any gambling experience. **Mr. Balam** said that the people they utilize have been involved in the gaming industry for a number of years so if they needed to tighten that particular portion of that section they could do so and that it was their intent to use people who are in fact very experienced.

**Director Bishop** said he wanted to clarify that the use of the word “audit” had been discontinued as a result of the discussion that had taken place a few months ago. They had decided that they wanted an evaluation of the internal control structure, which is a defined procedure but not an audit. He said legal problems appear when they use the word audit and he believed Mr. Balam probably did not mean to use that word per se. **Mr. Balam** said he understood that he thought this had been drafted from an older version that they had worked from.

**Commissioner Heavey** asked Director Bishop what he was saying. **Director Bishop** said the staff procedure calls for an evaluation of internal control structure – not an audit. The evaluation of internal control structures is a subset of an audit, but it is not a complete audit. **Commissioner Heavey** said Director Bishop was saying that “audit function” should be “internal control review.” **Director Bishop** said a review of the internal control structure required procedures. **Chairperson McLaughlin** said a review, to her, doesn’t mean anything very tight. **Commissioner Heavey** said number one took care of that. The document says somewhere that the staff is to set up what they are to do. A better word to her would be evaluation. **Director Bishop** suggested that, as this is filed, the word “audit” should be taken out and another term should be used. He said it was in paragraph four also where it says “audit” although it is talking about a function, sometimes that can become a problem. **Mr. Balam** said the thought their company would rather shy away from the word “audit” also.

**Michael Troilo** said he is the general manager at Chips Casino. He said he has not seen the so-called “problems” with casinos. He is there at the establishment 16 hours a day. He reiterated what others had said about the choices available to gamblers who were required to leave at 2 a.m. He said that if the rules changed, it would not stop gambling, it would just move the gambling out of the public sector and move it into the tribal area. He said the original intent was to create a level playing field and it didn’t make sense to him to change the rules. He wondered when they would get Craps and Roulette.

**Bob Russell**, owner and operator of El Papaguyo’s, said his business is family-owned and has been in business since 1957. His concerns are somewhat different than those who have gone before him. He comes from the view of a small operator. He supports what his colleagues have said – he understands how some of the proposed rules would affect a larger business with a higher overhead. He chose not to go to the \$100 limit because it wasn’t cost effective and they close at 2 a.m. because they don’t have the business in Moses Lake where things don’t close until 2 a.m., although they do stay open later than that on the weekends. He said he did

not foresee some things that would affect him as a small operator since the program began. The \$10,000 licensing fee, which is the same for everyone regardless of the size of the operation, is difficult for the smaller operator. He said he is not really asking for relief, but he wanted to throw some points of view out for everyone. Another issue is the separation of the surveillance and security. On July 1, they will be required to have a security person on staff at all times as well as in surveillance. Currently, their surveillance person is in there all the time, other than when they go out to do a fill a few times. That doesn't really take that long to do and they feel they can maintain adequate coverage. When the person is out of the surveillance room, the cameras are rolling and the tape is rolling so they can still maintain good coverage. He said it still seems that he is required to have two separate people at all times that he is open and that concerns him. He said he appreciated the open minds of the staff and commissioners and he understood the difficult task they had before them.

**Commissioner Ludwig** asked how many tables they have now. **Mr. Russell** said he had five tables with four of them open except on weekends.

**Mark Mitchell**, Drift On Inn, said that when they opened nine months ago as a casino, they took 23 people off the welfare rolls in the state, 12 of whom were single mothers with children, and 11 of them are still there because they are a good tip house. He said that any one of the three alternatives that were being proposed would be devastating to his business. He said the Shoreline Police Chief, Susan Ray, is in favor of keeping the hours going until six or seven in the morning so that people who have had drinks won't be on the road. He said they had 24-hour food service; coffee and soft drinks are free at all times whether they are gambling or not, so it gives people time to come downstairs and relax.

**Pat Walker** said he is new to the industry and has been working for the Riverside Casino as the marketing manager for about one month. He comes from the radio and advertising industries. The reason he left a good job in the advertising industry and chose to work in the gambling industry was his direct experience with the integrity of the owners and employees of the Riverside and those he met while working with the RGA. He said that waitresses and security employees tell him a common story that back up much of the testimony by those who have already spoken – a lot of single moms and a lot of people who have come off welfare and now able to participate economically by purchasing a house, a car and making a living wage. He said he has worked for many types of organizations and he is impressed with the strength of the regulations in the gambling industry. He said it didn't look like a rush-job to him. He said to work in the industry, he had to go through more scrutiny than any other job he has held.

**Blake Downen** said he is one of 200 employees at the Riverside Inn. The Riverside offers six weeks of free training to its employees and last week they began to provide health care to all employees. He said many of his coworkers come from minority races, single parents, and were from public assistance programs. He said this is the best job they've ever had. He has spoken to the employees regarding the alternative rules and if they could be here to testify they would report the negative impacts on their lives these rules would have if implemented. He asks on their behalf to file the original rules that were recommended by staff.

**Bob Mitchell**, Drift On Inn Casino, said he is in his sixth year in the card room business. When they started they had two card rooms, but it became such a struggle at one point they closed their doors on the Blackjack Café and it remains closed. He said they feel they have been given a second chance with a program that works very well and if the tables are reduced to 10 or less or the betting limits to \$50 or less, it would be struggle. They had a tough enough time when they had 15 tables at \$25. They would have to lay off many different types of employees.

**Jeff Coombe**, All Star Lanes and Casino, Silverdale, said that, when he entered the pilot program, he was fully aware that these were interim rules and permanent rules would be adopted at a later date. With that in mind, he still went out and spent all the money he had and all the money he could borrow and took the risk. He said he knew that things could really change and he would be affected negatively if they do, but since he has been self employed for many years and only in the gambling business in the last three years, but if things go negatively, he is a commissioned salesman and he will do fine. He is not concerned for his own survival – he can and has always been able to make a living; however, he is concerned about the 190 people who went to work today and he can't imagine having to look at those people and decide which have to go. He said he knew what a thankless task the Commission had before them, but he urged them to adopt the temporary rules as permanent. He

compared the implementation of alternative rules to removing the wheels, pedals and handle bars of a bicycle and expecting it to continue to run that way.

**Chris Kealy** said that he appreciated the comments of Commissioner Ludwig; however, at the encouragement of staff, the developers of the casinos based all of their decisions to go into business on the rules and he believed that they had followed the rules that were set up. He said that he was unable to see that gambling had brought in anything other than bad press and some stiff competition that will have to reach equilibrium. Chips Casino has 5,000 square feet and was built to target a niche market that is dependent upon shifts letting in and out of the shipyard and it works seven days a week. Jimmy G's is a 19,000 square foot facility that has a banquet hall and a huge restaurant and a commitment to the community in all its various ways. Big Al's in Everett was built from a strip mall and targets (as all three of these organizations do) the base set of rules and when there is a significant shift in wagering limits, table counts or house of operation, it changes the targets so dramatically that the deal they have cut with their employees, the communities, and their bankers is messed up. None of them in their own perception picked those rules, but if they are changed, they will get in trouble in many ways – the whole system will be disrupted. He said that South Tacoma is excited about having the casinos be open all night because they keep people off the streets and the surveillance system assists them inadvertently with the apprehension of some criminals.

**Commissioner Ludwig** agreed that some of the so-called problems were more the result of bad press, but it was up to the industry itself to stop the appearance of looking like they are a Las Vegas-type operation. Part of the concern about operating all night long is the perception that Las Vegas is now "in your neighborhood" operating 24 hours a day.

**Mr. Kealy** said the \$1.2 million in tax revenue they give to the police is going to result in more police services and they will catch more criminals, not propagate more crime.

**Steve Griffiths** said there are some misperceptions that have been created in the industry that makes everyone think all establishments perform as well as the top ten do. This overshadows the bottom 30 or 40 that may be marginal or not profitable. He said today's testimonies reflect some of that sentiment. He said his establishment started out extremely slow with the \$25 limits. They lost money during the week, but made it up on the weekends when they could go to 15 tables. After the Phase II review and going to the \$100 limits, they began to move ahead. There is a 20 percent tax in Federal Way and that tax coupled with some of the other changes could mean the end of the facility. He did not want to be redundant about what other people have already said about the number of jobs at stake, but they should understand that these are not robust enterprises for many people. This fragility along with changes in rules has a profound effect on them and he implored the Commission to go back to the original staff recommendations and look at those and go with them.

**Art Lawrenson**, Café International, Blaine, said he and his son have owned Café International for 39 years. He said he would not reiterate the comments they have already heard. He said that, as a licensee, he is very proud of the people in this room whom the Commission regulates. He said they all have major investments and have done everything to the best of their ability to comply with the existing rules and he is proud to be one of them. He said they have come a long way since round table poker and the industry is one of constant change. He said many of the people in the room had almost closed their doors in the past through the advent of the changing of the social drinking pattern, through proliferation of the tribal gaming, they were not going anywhere. When the playing field became more level, many were helped to remain in business and continue to hire people, and provide taxes to the various communities. He is totally opposed to the proposed changes and sees no reason to put them in. He said what they had been doing under the pilot test program was they feel their way along in this business. They have a lot to learn and the proposed changes would make them start walking backwards and sees no reason to do this. He said he understands that as they continue there may be a need for some adjustments. He said he is a small operator with five Blackjack and four Poker tables. He said all of Whatcom County is very competitive with the expansion of the Canadian market, but they are surviving, but it has not been easy. **Commissioner Ludwig** asked how many wager spots he had at his five Blackjack tables. **Mr. Lawrenson** said seven at each one, and they are at the \$25 limit with no intention of going higher at this time until they learn more.

**Phyllis Wawryk**, Forest Grove, said they have been running their facility for 20 years and have been over one hurdle after another. They have an event-type facility and they started out with ballroom dancing, which didn't work, so they went to rock n' roll, which was more successful. Because the liquor laws have been changed, that business is gone so Blackjack was supposed to be the light at the end of the tunnel. However, with these new changes, they are frightened. On top of that, they have had the exchange rate, which has not been in their favor at all. She had hoped that Blackjack would help them get ahead. They've gone from 17 employees to 80 employees and they were hoping to be a good corporate citizen to their people. She urged the Commission to have mercy on them.

**Chairperson McLaughlin** asked where they were located. **Ms. Wawryk** said they were located on Birch Bay on the way to this facility (Semiahmoo). They leased the hall out to bingo – a nonprofit bingo – three days a week, Tuesday, Wednesday, and Thursday. They operate Friday, Saturday, Sunday, and Monday with whatever events they can have. She said they were hoping that Blackjack would give them a seven-day operation because it's an event-type facility and it would take a lot of energy just to keep these events going.

**Commissioner Ludwig** asked if the Blackjack operation is running while the bingo is also running. **Ms. Wawryk** said they actually had not started. They are in an unincorporated area of the county. They were very interested when Appendix C became available but they had to get the ordinance changed so that took a year and a half so their first day of operation will be next Tuesday.

**Alan Wawryk**, Forest Grove, said that going through the process of licensing, even though it's a test program, is a major task, but the cooperation and professionalism of the staff is excellent. In the 20 years he has been in business and has seen incredible change, one of which was the reporting requirement for Canadian currency exchange. He says he remembers Director Bishop saying over 12 years ago that he was paid to look after the money of the people of this state and he said all the staff, both old and new, have done a wonderful job, but they are very clear about their role. He said that if there are words that cause problems such as "Nevada-style gaming," then the industry needs to work at that perception problem. One of the positive side effects to this issue has been the manner in which the test program has been implemented. By putting the rules as they are implemented and put into place on a test basis has done something very positive for the operators and for the community in which these establishments are located. He said there are very few businesses where employees must be licensed 20 days ahead before they can work. The internal control manual of 200 pages and 64 forms to operate a business is extensive and effective. He said this is not to complain, but to point out how thorough and complete the oversight of the gaming industry already is. He said he is looking forward to moving ahead on the basis of the original rules and they know there will be some changes and they are prepared to make them.

**Dexter Donaldson**, head of security at the Golden Nugget Casino in Tukwila, said this job gives him a very good opportunity to take care of his wife and three children in a way they deserve.

**Eric Stamey**, a dealer at the Golden Nugget, said he has been licensed for 15 years. He wanted to remind the commissioners there are a lot of jobs involved and they provide honest hard working people with a good way to make a living.

**Edwin Robinson**, a security person at the 21 Club in Tukwila, said he has worked there since it opened and he speaks for everyone there in saying that they really like their jobs and a lot of people work from paycheck to paycheck and they need their jobs.

**Bill Finkbonner**, a supervisor at Jack Niemann's Casino, thanked the Commission for giving him the opportunity to come before them to beg for his job. His wife works there as a supervisor also and without their jobs they don't know what they would be doing because this has been their livelihood since casinos have come to Washington.

**Beth Thacker**, casino manager for the Golden Nugget in Tukwila, said she and her husband moved here from Iowa in November where she worked as a computer technician for a telephone company making an average salary. Her husband had gone through medical problems and they were in debt. They took the opportunity when the casinos opened and she and her husband hope that their jobs will continue so they can get out of debt. She

said the training that is provided for the card room employees is extensive and gives employees an opportunity to advance.

**Kim Maxey** said she came here from California and now works for the Golden Nugget Casino. Before that she worked for the tribal gambling at the Emerald Queen Casino and was let go. She has children and a sick husband and unemployment was all that was available. She went to the Golden Nugget and got a job and she was doing coordinated training one shift and she noticed a trend – at least 40 people that were working and she is not unemployed.

**Commissioner Ludwig** asked if the salary is better at the Golden Nugget than at the Emerald Queen Casino. **Ms. Maxey** said the pay was the same as the Emerald Queen and she asked that they allow the card room to have more hours and upgrade the limit so they can keep the customer and everybody will have work.

**Tom Humphrey** said he is with Michels Development and he wanted to submit as part of the record the various documents that they submitted to the Commission in letterform so that they become a formal part of the record. In addition he asked that the letter from the City of LaCenter Police Chief be entered as a formal part of the record.

**Julio Delgado** said he came from Cuba to Washington and it was very hard to get a job in this country. The 21 Club Casino gave him that opportunity to make money for his family.

**J.B. Bond** said he is the general manager at the Paradise Bowling Center and Casino. He has been in the gaming business half his adult life – he started at 24 and is now 50. Being an operator is easier than being a regulator and his hat's off to the Commission because he's still learning about the business after that length of time. He said everybody has already said what he wanted to say, but he wants everyone to know that he has a very diverse client base made up of lawyers, doctors, nurses, school teachers, and laborers. He believes anyone would be hard-pressed to find this group of people sitting around a 21 game giving each other hi-fives when the dealer breaks, talking about politics and religion and the meaning of life, so he thinks that in their little community in Parkland, they are bringing things together. His facility is a meeting place. He hopes the limits go to \$100 and he hopes they get more table games. He said he needs more games, because he takes a waiting list at three in the afternoon. He thanked them for listening.

**Julie Porter** said Mr. Brennen has allowed her to go first. She is from Washington Gaming Consultants and a former card room operator. She would like to address the history of the passing of this law. She said it has been a kind of murmuring throughout this industry that they misled the Legislature. She was a lobbyist in the Legislature on up to speaking with Governor Locke and she can say with certainty that they did not mislead them. They spoke to them and asked for house-banked Blackjack, house-banked games and told them that Washington Blackjack was unacceptable because of the licensing issues with the non licensed bankers and told them that it would provide greater employment opportunities; that they would help single working moms, increase the ability to provide benefits for their employees and that they would increase tax revenues. Some legislators asked questions, some didn't. Some were well informed on the bill and some were not. She said they were there to answer questions and educate.

**Mr. Porter** said there was one legislator who actually said, "I'm against gambling; I have never voted for a gambling bill; I told my constituents I never will, but you tell me how we can vote for this; give me a way." And they told him it was based on small business and all the previous reasons. He did end up supporting it, but he was very well aware of what he was voting for. They did not mislead anybody. After hearing the testimony today, she is very proud of what has been done through this program. All the benefits they said would happen has happened. She has always said that if they give her someone who can smile, she can turn them into a contributing member of society where they can either stay here or move on to another type of employment, but they can train them. She is only sorry that the media has created this kind of frenzy. She said she does not advertise what she does for a living in her community and it is amazing what little impact gambling has outside of this room and the people who are employed in it. It is not a big issue outside of what is seen in the media and this seems to be ignored in the communities that she lives in. She urged the Commission to stay the course. Extreme change is ultimately what harms the industry.



**Bob Brennen**, said the commissioners have the toughest job and take all the heat, but he thinks they have overlooked one important item on their behalf which is they should take great pride in how far they have come in a very short time. He said he didn't come from this business, he was in the travel business before which also has challenges and he thinks that because the staff has done such a wonderful job, the regulations are working and preventing gambling from becoming Las Vegas-style games. Washington casinos are not "casinos;" they don't have Craps or Roulette; they just have card games and because of the excellent staff and the thoughtful regulations, gambling in Washington will always be a good clean industry and will not get out of control.

**Rick Jones**, Scrapbook Restaurant and Silver Lanes, Spokane, said when they bought the business in 1993 it was not long before they almost lost it, but due to the enhancement program they were able to save it. They have now been able to go from 70 to over 200 employees. They upgraded their restaurant facility and may be able to remodel their bowling center. Spokane used to have nine bowling centers and they are down to six. They opened their card room in 1993 and they ran it until 2 a.m.. They asked to work with the local SPD Police Chief, Terry Mangan, to get it open until 6 a.m. because they did have some problems with after hour gaming activities. By extending the hours to 6 a.m., the after hour games stopped and they continue to work closely with the police department. He said they took a lot of heat in the media in Spokane when they first started and they have survived that so far. They have also taken single parents off the welfare rolls. They have over 10 percent of people going to college able to add and supplement their income through their gaming and their restaurant and their bowl because of this. Over 10 percent of their staff that are on fixed incomes supplement their income by becoming dealers, working in surveillance or security. They offer 401(k) now, medical insurance, dental programs and they have an IRS track agreement that they've established. In response to Commissioner Ludwig's comment about being asked to hurry up, a year ago they were slowed down when they tried to get approved for Phase II along with Freddie's Club. They were delayed a month, which was good because they found some errors in some of their internal controls. They were delayed three or four months later when they slowed people down getting on the list and so now approvals are done only three or four at a time. He thanked the Commission for the enhancement program because his business is in operation today because of it.

**Beverly Millagan**, said she is with the SloPitch Pub Eatery and Card Room in Bellingham. The SloPitch has been a 24-hour eatery for the last two years with 24 employees. In September, they opened two tables of poker and three Washington Blackjack tables. They have developed a local clientele, which has required their staff to increase to 54. Their tables are now increasing to eight. By having operation hours after 2 a.m., they offer the employees of Arco, Intelco, GP and others a form of entertainment and dining at the end of their work shift. They have had no need for police intervention due to the extended hours and offer a service to those employees elsewhere who need a place to go at the end of their day. They can foresee the need for not only the continuation of extended hours, but the expansion capability of 15 tables. By being able to expand to 15 tables, they will more than double their current workforce. With higher limits included in their projections, they will be able to offer their employees potential medical benefits and flexible work hours. She personally benefits from the extended hours by having her son working part time while attending Western Washington University. Without the late night shifts available on weekends, he would be unable to meet both the classroom requirements and living expenses. The SloPitch offers entertainment and service to a wide range of guests. Every nationality is represented as either a guest or an employee. Due to the expansion of Canadian casinos, they not only want but will now need the extended hours and the potential of a \$100 betting limits to ensure their growth as a viable business.

**Albert Dykes**, is in investment banking and venture capital. He got involved in this business when a tenant in a shopping center owed him a lot of money. He ended up owning a restaurant/tavern that did a substantial volume in pull-tabs and still does. He has been operating that business for six months with professional management. It has been losing approximately \$6,000 per month, not including rent for the premises nor additional capital infusion to improve the facility. He applied for a gambling license approximately six months ago and was told through his attorney that the background check was only now beginning. There's absolutely nothing in his background that should be the cause for any question. He holds broker's licenses in securities, real estate and has secret clearances through the military because of his involvement with missiles. With his background and investments, he has concluded that without an enhanced license, the investment is not viable, even though enhancement would involve additional capital investment and substantial risk. It's not clear to him that this is the golden opportunity that people are being led to believe by the media and general perception. As he understands that there are ten withdrawals from the program since the test program began. There are fewer card room

operations and the above observation is before the consideration of what seems to him to be rather drastic proposals to address issues that are not supported by Gambling Commission staff findings. He says that, with the adoption of these alternative rules proposals, there is no sound reason for him to pursue this objective. He would have to decide to eliminate the present operation, which would mean approximately 40 people would have to be fired plus the loss of at least that number or more if he chose to make the investment to proceed. Lastly, he is bothered by a state system that allows one group to have 52 tables against a present 15 limit. A \$500 bet minimum against \$100 and reduction hours. There's clearly no equity in that.

**Michael Powers**, Aces Casino in Spokane, said businesses run on percentages. If a public company comes out and they miss their revenue projections by one or two percentages, their stock drops by a third because that's where the profits are. If the hours are cut back to 2 a.m., that would be 20 percent of their operating hours and it represents 20 to 30 percent of their revenue. A 20 percent reduction in revenue is life threatening to almost any business and certainly fragile businesses like this. A 33 percent reduction in table capacity would be devastating. A reduction from \$100 to \$25 is 75 percent and that would be devastating. Any one of these could be and are life threatening to certain organizations let alone all of them combined. These businesses are not high rollers that have invested their money. They're family people as they've testified and they're the real gamblers – not the people on the other side of the table. He thanked the Commission and the staff for all the hard work they have done and the integrity of this operation.

**Sandy Dang**, Double Down Casino, said she is grateful to be here on behalf of the other Double Down employees who are very diverse. Many of them have had a rough time financially. She is the mother of three who used to work for US Bank as an accountant before it merged with Minnesota. After losing her job she found it very difficult to find work and nearly ended up on public assistance. At the Double Down Casino, she's been given the opportunity to grow and raise her family with a decent living. The operation provides tax revenue to the communities and charities. If they had to cut the number of tables down to ten, business would go down. As a dealer she knows they have a lot of customers who look forward to coming in after 2 a.m. and having complimentary drinks to sober up before getting out on the streets. The job environment at the Double Down is safe and they can still make good wages. It would be very hard to return to the hard times she has had to endure in the past and she hopes that the Commission will consider this when making a decision.

**Karen Harris** said she is a bartender from the Double Down. She feels she is lucky because she can work anywhere. She said there are waitresses in her restaurant that are IRS auditors, certified nurses, there is a teacher and she herself has a bachelor's degree, but she couldn't find a wage that would support her family and now she can do that. She could be a bartender someplace else, but it doesn't provide the environment that the casino provides – the security and the surveillance. She feels safe because somebody is always watching her. She said she has never seen a fight in the casino because there is so much security. It is far superior to a standard bar, a place where a person goes for the specific purpose of getting drunk so they can get in their car and drive out on the street. The gamblers don't come there to get drunk. In her bar, it's 3 or 4 p.m. in the afternoon before she even pours a beer. These people don't drink. They come to have fun and relax. She said a lot of people come in the moment they open at 6 a.m. because they don't work from 9 to 5. There are lots of people in her unit who are shift workers and they have no where to go at 3 a.m., 5 a.m. or 10 a.m., when they get off work. The casino provides a lot of jobs for restaurant staff and for the cocktail staff and the wages are much better in the casino than at a regular bar. She does much better in tips because most of the drinks she provides are free. She is making so much more money now that her husband is able to stay home with the kids. It's usually 4 p.m. before they exceed 10 tables and by then several people have walked out because they just wanted to sit down and play a few hands of cards and there wasn't enough room. On the weekends, it's standing room only. The chief of police eats lunch there and he has told her they have not had an increase in crime and there has not been a negative impact on the community.

**Commissioner Ludwig** asked about the free drinks. **Ms. Harris** said that's non-alcoholic drinks such as orange, cranberry juice, soda pop. She said most of her people don't drink alcohol, but it is not free anyway.

**Mark Frank**, Fiesta Bowl, Richland, owns four bowling centers in the Northwest and he's been in the business for 15 years. They opened their enhanced card room last November. The Fiesta Bowl has yet to turn a profit since January 1995. He said they were unable to compete with the local tribal card rooms. Until they heard of the enhancement program, they had given up and planned to sell out. He is new to the business and he hired

experienced people to run it and opened with the idea it would be full-fledged card room and nine tables. The local officials have no problems with them operating any time. They have no problems and they are open until 4 a.m. After they go to Phase II, they would like to stay open later and expand to 15 tables. As far as the limits are concerned, it isn't a fair playing field with the tribal casinos. His players want the choice of going to higher limits. They have lost customers because of that and they would come back if the limits were raised. They operate nine tables and it is not cost effective. He has the same management, accounting, cashier, security and surveillance as the other casinos. He said they aren't losing money, but if their Let It Ride table gets hit again this month, there goes their profit. He said last month would have been their first profitable month, but he got a call at 1 in the morning and it was hit with a royal flush.

**Commissioner Ludwig** noted that he has only one competitor and he is at a disadvantage because he is in the 20 percent city. **Mr. Frank** said when he went to the City Council, their card room tax was 20 percent. He told them that it was very restrictive as far as their profit and requested them to lower it to 10 percent and they did. The city officials are very happy with the program and the jobs it creates and they are very supportive of their plans for expansion. The tables aren't needed until Friday and Saturday nights.

**Chairperson McLaughlin** asked if there was anyone else wishing to testify. **Mr. Tull** passed out an excerpt from a book that explains some betting systems and how limits can affect those. No one else came forward. **Chairperson McLaughlin** closed the public testimony for today.

**Commissioner Heavey** moved to approve the alternative with the requirement that a CPA sign off on the review, with the additional requirement that the certified public accountant sign off on the review and that the staff has to authorize the use of a outside person. In other words, so the staff can do the audit if they want to. **Chairperson McLaughlin** said that at the last meeting, he said he wanted the CPA to have gambling experience. **Commissioner Heavey** said that was correct, and they should have adequate education, experience and training. **Commissioner Herbold** seconded the motion. **Chairperson McLaughlin** called for any discussion on adding version C as an alternative to the internal control unit. **Commissioner Heavey** added that it should include the changes he suggested. *Vote taken; motion carried with five aye votes.*

**Commissioner Herbold** hoped the staff would give its input at the next meeting as to which of these alternatives they feel would work best since there are several on the table. **Director Bishop** said that in the interim they would meet with Mr. Balam to work out some details on some of the language.

## WASHINGTON BLACKJACK

**Chairperson McLaughlin** called for the vote on the Washington Blackjack.

**Commissioner Heavey** moved to file; **Commissioner Forrest** seconded. **Chairperson McLaughlin** said it had been moved and seconded to file WAC 230-40-125 and the two alternatives. She asked if they wanted to file all three. Both **Commissioner Heavey** and **Commissioner Forrest** agreed.

**Commissioner Ludwig** asked if this is filed today, would it delay the implementation. **Director Bishop** said the staff would request that that particular part of the other package be held over to time it with this, which is not a critical part of the other package. It was some adjustments that they had put into Washington Blackjack. It will hold it over for an extra month. It would only be dealing with Washington Blackjack. *Vote taken; motion carried to file for further discussion.*

**Director Bishop** pointed out that, in the written materials as well as some of the testimony he heard today, there were several references about differences in the operating hours as compared to tribal casinos. He clarified that the tribal casinos are only allowed to operate 20 hours a day and that's after they go to Phase II. Phase I tribal operations are the first six months and they are only allowed to operate 112 hours a week. Also, they can only go to closing after 2 a.m. with the concurrence of the Gambling Commission and local law enforcement. In essence, taking the Liquor Board out, the requirements are the same and somewhat more restrictive on Phase I for tribal casinos. The parity is there and he wanted to get that on the record.

**Commissioner Heavey** said he thinks that what they were talking about is that they have to close at 2 a.m., but tribal casinos don't. **Director Bishop** said that by compact, the closing time is 2 a.m. They get to alter that by getting local law enforcement to agree to it and working through the staff the same as the card rooms have to do right now. **Commissioner Heavey** said their point was that if they were required to close at 2 a.m., they would not be on parity. **Director Bishop** said that would be correct if the proposed changes went through. **Commissioner Heavey** said that in the original proposed rule there is still that flexibility for hours.

**Chairperson McLaughlin** said there is a difference between the Indian casinos and commercial establishments. A commercial establishment makes its net profit for one or two or three people or however many partners there are. The Indian casinos are a government and they're giving out their money much as a nonprofit bingo game gives for social needs of the tribe. That needs to be put on the record.

**Commissioner Herbold** said there were several statements made that what the Commission is trying to do is to cut down on the number of tables. One person said they never expected to go to 10 tables and talked about reducing hours instead of reducing the flexibility on hours and lowering the wagering limits. She pointed out that the current number of tables in the law is five, so going from five to ten would not be cutting down on the number of tables, and going from the current wagering limit of \$25 to \$50 would not be lowering the wagering limits. There seems to be some detrimental reliance on the pilot test program, although the Commission has said over and over again, that everyone needs to recognize that this is a test program and that the limits and number of tables were not set in concrete and could be flexible when it came to setting the permanent rules. She doesn't know where this will end up.

**Commissioner Herbold** said there was a question about whether the Commission might be trying to slow down the growth of gambling with respect to the card rooms, are they concerned about crime in the area of the card rooms. For her personally, that is not her intention. She is not concerned about crime in the area because she hasn't seen anything to cause concern. Her concern is that the Gambling Commission is a regulatory agency and does not make policy. The job of the Commission is to regulate, and this state has always had an excellent reputation in the arena of regulation. Her concern is that the Commission cannot staff adequately and as quickly as is needed to continue being the best regulators in the nation. She is concerned that, as the Commission has moved through this process, the staff has been working very hard – overtime in many instances – and the Commission is not able to get all of the numbers of people on board needed to do an adequate job. Until the Commission can hire an adequate number of staff to do the best regulatory job possible, there will be comments like, "Sorry, we don't have that information for you this month because all of our staff are devoted to this card room test program," or, "No, we don't go back and inspect as often as we'd like to because there are not enough staff to do that because everyone is devoted to getting these permanent rules done." She said the Legislature made the decision on the enhanced card rooms, and she can live with that; however, she is concerned about the staff and Commission being able to do the best job possible to ensure the state remains the best in the nation with regard to gambling regulation.

**Chairperson McLaughlin** said that two years ago the Legislature changed the number of tables to 10. It hasn't been five tables for two years. **Commissioner Herbold** pointed out that the Legislature changed it to say "up to 15," they didn't say it had to be 15. And the pilot program was to test the program. The rule before that point was five, and the Commission is now contemplating changing it to more than five.

**Commissioner Heavey** asked what the number of tables are permitted in a non-house banked operation.

**Director Bishop** said that right now, outside of the pilot program, the limit is five tables. **Commissioner Heavey** said that means Commissioner Herbold is correct. **Chairperson McLaughlin** said she thinks Commissioner Herbold is incorrect and that the law was changed to allow 15 tables. If somebody wanted 15 tables by law they could have it and not have to be in the enhanced program. **Commissioner Heavey** said that was his question. **Chairperson McLaughlin** said that was the Commission's rule. **Commissioner Heavey** said he thought that was the statute.

**Mr. McCoy** said that ever since they started the enhanced card room pilot program two years ago, it's been an exception to the existing rule. The existing rule is five tables. If the pilot program expires, then the existing rule

essentially reasserts itself and they are back at five tables. **Commissioner Heavey** said his question isn't the rule; his question is the statute.

**Mr. Fleisher** said the statute has, since 1996, given the Gambling Commission the authority to set the number of tables at up to 15. The current WAC rule on the books is five, and the pilot program participants have been allowed up to 15. The rules that are before the Commission now, if adopted, would put the WAC rule at 15, the statutory maximum. **Commissioner Heavey** said the statute for card rooms – period -- is up to 15. **Mr. Fleisher** said the statute on the 15 does not distinguish between types of card rooms. **Commissioner Heavey** said that was his question. **Chairperson McLaughlin** said she stands corrected.

## VIDEO PULL-TABS FOR CHARITABLE AND NONPROFIT ORGANIZATIONS

- a) New Section WAC 230-02-600 – Electronic pull-tab ticket defined
- b) New Section WAC 230-02-600 – Electronic pull-tab game or set defined
- c) New Section WAC 230-02-600 – Electronic pull-tab games

**Ms. Patjens** said these are three rules that are up for discussion and possible filing today. At the last meeting there was a motion by the Commission asking staff to put rules on the agenda just to generate discussion about authorizing video pull-tabs for nonprofit organizations. There was a vote of the Commission to put this on the agenda and a formal Attorney General opinion was requested.

**Commissioner Forrest** said he is very sympathetic of charitable organizations. He moved to hold this matter over until the Commission receives an official Attorney General opinion addressing the question.

**Commissioner Ludwig** seconded the motion. He explained that he seconded the motion because the touchy issue is giving this only to the charities and not to everyone. Having this item on the agenda creates a hope -- an anticipation -- on the part of the charitable community, which may be a false hope. At the same time they run the risk of offending at least one legislator who said, "If they try to do that, we're going to call them in here and ask them what the heck's going on." That kind of animosity may be unnecessary too. To avoid the possibility of those two situations, he would rather wait for the AG's response in particular to that second issue of an exclusive situation.

**Commissioner Heavey** said he doesn't think this creates a "false hope" or additional staff time because the Attorney General's opinion will be issued before they take final action on these rules. Then, if the Attorney General's opinion is such that they can proceed -- or the others on the Commission by that point because he will not be here at that time -- then the staff time will be spent adopting the additional rules necessary to implement this. Secondly, he would be delighted to appear in front of the legislative committee and tell them what the heck is going on and then he might ask them why in the heck don't they fund these activities so the charities don't have to run bingo games. He said it is politics with them -- they are not trying to solve a problem. That's what's happening and as far as he is concerned that applies to both of those individuals who have commented about his proposal to try to do something for the charities when the state won't do it. He said he asked how many people the charities served and it's something like in excess of 200, 000 people. He suggested to them that they send out a mailing to the people they provide services to and say, "the Legislature is not permitting us to provide our services and contact your local legislator."

**Chairperson McLaughlin** said he has a good point. She said the testimony before them from the people that work for the casinos that are not the owner-operators -- and that's not putting down the owner-operators--but their testimony was very enlightening to her. She appreciates what Mr. Heavey is trying to do for the charities because she knows he is talking about this not just from his intellect but from his heart and he has consistently maintained that position since he came on the Commission. However, if they go ahead without the Attorney General's formal opinion, and two other commissioners agree with her on that, she would be proceeding on something that does not make sense to her. She feels the formal opinion should come in first before they file it so at this time, she will vote against filing the video pull-tab proposal, but at another time things might be different. She said she is a little bit emotional about this issue because she would like to be on the other side with Mr. Heavey, but she can't at this time. She said satellite bingo is coming in and no one knows what that's going to do. Machines that look like slot machines and they're not slot machines are coming into play and they don't know what that's going to do. She said they seem to go ahead with things and don't know what's coming

next and she thinks that that might have been what Mr. Heavey meant – not that they were pushing ahead the rules so much, but it just seems like they are snowballing with things. She wouldn't be surprised if the Attorney General said they had the right to make a rule package for the one industry, but she thinks it will be industry-whole. She doesn't think it should be just for the nonprofits, so at this time she will vote against filing.

**Commissioner Heavey** suggested that the charities could go to the Legislature and get some individual legislators to write to the Commission and say, "Please put these video pull-tabs into play because we can't get it passed in the Legislature," like they did with satellite bingo. His feeling is why do they have to wait for a letter. Why don't they just do it. **Chairperson McLaughlin** said that was his feeling. **Commissioner Heavey** said it is an unnecessary delay because if the Attorney General comes down with an opinion that say they can't do it, then they don't do it. If they say it can't be just charities, then the issue is before them – do they want to do it for everybody or do they not want to do it at all. It doesn't create additional work, but it does make sure that the process keeps moving. He has a feeling that unless they keep the process moving, it may be a long time before they get an opinion from the Attorney General.

**Chairperson McLaughlin** said she spoke with Mr. Pharris and asked him when the opinion would be in and he said at the end of May. There are seven or eight opinions ahead of theirs that have to be made.

**Commissioner Heavey** said that would be at the end of May they won't be able to adopt this rule until June, so if the opinion comes down in May that says they can't do it, they don't adopt the rule. He said he does not understand the delay.

**Commissioner Herbold** said she agrees with Commissioner Heavey for several reasons. Number one, quoting the language of that particular legislator, she would also be happy to be hauled before them to answer questions about why they want to do this. Secondly, in deference to Commissioner Heavey's short-remaining term, this is a subject near and dear to his heart and has always been – this is not something that has come up out of the blue. He always talks about how important the bingo revenues are to the community, to the social services that are provided. She said she did not think that filing these rules today is going to create any additional work for the staff, allowing them to discuss them over the next several months. They don't have to vote on it if they are still waiting for the Attorney General's opinion letter, they can defer it, but she thinks it would be nice for them to continue this discussion while Commissioner Heavey is still on the Commission, so she would vote against delaying and she would vote in favor of filing.

**Chairperson McLaughlin** called for public testimony.

**Kevin Wagner**, WCCGA, said the charities use gambling funds to provide the community services that they have talked about. Some of them are the Big Brothers and Sisters programs, Boys and Girls clubs, disabled services, crisis centers, programs for seniors, youth sports programs, educational services and many others. Regarding the net income task force meeting, they came up with a comparison of the top 40 halls quarter by quarter 1998 compared to 1997. The first quarter of 1998 the difference from the 1997 first quarter was a drop in attendance of 28,000 participants, a slight increase in gross sales of \$20,000, the comparison, the change in the second quarter '98 from the second quarter '97 was a decrease in attendance of 48,000 participants and a decrease in gross sales of \$536,000. The change in the third quarter of '98 from the third quarter of '97 is a decrease of 72,000 participants and a decrease of gross sales of \$1.3 million. The rough draft that they were given for the comparison of fourth quarter '98 from '97 was a decrease of 92,000 participants and \$1.5 million in gross sales. This tells him that the charitable organizations need help from all of the commissioners and they need help from all of the staff as well and they greatly appreciate that.

**John Beadle**, Seattle Junior Hockey, said their purpose is to represent the many, not the few. They are here for hundreds of thousands of people in this state that need assistance. He said, for example, one organization that drops \$500,000 less net profit in one year than the year before couldn't handle a cut that fast. They are already authorized to sell pull-tabs and they are not asking the Commission to do anything that is not within their power or illegal. He said they understand this is dependent upon a favorable opinion from the Attorney General, but they are also looking at a different marketing technique. They are talking about pull-tabs that they already sell. It is a different marketing technique that they are talking about and they just want to establish a dialogue to continue speaking along these lines on this dialogue. They are not asking them to approve them for us. They

understand Commissioner Ludwig has some concern also on whether it would be authorized for everybody. And then again he wanted to bring out one important thing and that is if it had to be authorized for everybody, the Commission has the power to limit the people as a trade stimulant to a lower level of video machines than they do the nonprofits. The point he wanted to make is the nonprofits are in gambling primarily to make money for the community. Commercial operators are in as a trade stimulant. He said he wouldn't be against both having machines, but he just wanted to make the point the Commission has the power to limit the amount of machines and based on the trade stimulant law, that has a very important effect. They just want to begin a dialogue and he does not look at it as a false hope. He looks at it as some hope. He said he knows satellite bingo is not the answer to their problem, but he wanted the commissioners to keep in mind that they are not adding sessions. The satellite bingo is giving them one game per session authorized up to two or three times a day that they already run with an increased prize for that game only.

**Chairperson McLaughlin** said they needed to move on in the testimony because of the time.

**Kevin Crum**, Board Member of the WCCGA, said they understand that this issue has the potential to be a political hot potato. He said they understand that there are some questions that must be answered before final adoption can be made, but they urge the Commission to file this for further discussion today so that if the Attorney General's opinion comes back favorable they can act in a timely fashion. He said contrary to belief, they do know what the effect of the video slot machines will be because they have seen it in eastern Washington. If the numbers of the charitable licensees production in eastern Washington over the last couple of years when they've had to compete against slot machines, it's been devastating. If the process is delayed any more than they have to, they will not have the opportunity to ever come back for anything else because the industry will not be around for very long.

**Don Kaufman**, General Managing Director for Big Brothers/Sisters of Spokane, said he understands this wouldn't be false hope, but it might be some hope and right now they don't have much hope. In Spokane they are surrounded by tribal gaming and have been for some time. They have a \$12 million facility 40 minutes from town to the east and very soon they will have about a \$17 million facility about 10 minutes from their door to the west. That facility will be opening with the machines that have been recently approved when that approval did not go through the Legislature. It was approved at the Governor and the Gambling Commission level.

**Chairperson McLaughlin** said it was really approved at the Ninth Circuit Court.

**Don Kaufman** said it did not go through the Legislature. From 1992 to 1998, they have lost 37 percent of their crowd attendance. Their first quarter of this year compared to last year, they are down almost 7 percent. If satellite gaming just stops the bleeding for a few months, that will be positive. This is without the new casino opening that will be 10 minutes from their door, and they also know that the Spokane Tribe is now asking for trust status on the land that they've bought on the outskirts of Airway Heights. Something is needed to save the nonprofits. He said he would take a little hope as opposed to no hope and he urged the Commission to file this so they can keep in on the agenda and keep discussing it and the AG's opinion will be up in plenty of time it appears so the commissioners can make a decision.

**Chairperson McLaughlin** said it would still be on the agenda even if it were not filed today.

**Commissioner Heavey** said that, in 1973, the Legislature passed a gambling law in order to authorize bingo for charity. They were the leaders in getting gambling going in the state of Washington and now they are the last ones in line. That doesn't make sense to him to delay anything further.

**Ed Hemming**, Mr. Ed's Bingo said he was the commander of Ballard VFW Post in 1969. Their proceeds came from bingo and it was done under a tolerance policy and then the state shut them down. They worked very hard with Buck Buchanan and the Federation of Clubs in getting signatures in order to get gambling on the ballot to help charities. He has devoted 26 years of his life to helping charities and getting things going and he would like to see them with a means of moving forward.

*Vote taken; motion carried 3 to 2. Commissioners Ludwig and Forrest and Chairperson McLaughlin voted aye, and Commissioners Heavey and Herbold voted no.*

**Chairperson McLaughlin** said the issue will stay on the agenda, it just is not filed today.

#### **OTHER BUSINESS/GENERAL DISCUSSION/COMMENTS FROM THE PUBLIC**

**Chairperson McLaughlin** called for further business or general discussion.

**Commissioner Ludwig** said yesterday there was testimony concerning a new license approval or a house banked approval and he noted it was for a business that is not presently established. He looked into the matter and found out that a commercial stimulant is for an existing business. There is a proviso that says, "Provided that the Commission may grant established status to a business" and it lists one through 4 items "ready to go into business and has met all of the requirements, et cetera," and it seems to him that that really flies in the face of an established business, particularly when an operator goes to a new location and buys out a facility that's out of business. He will not buy the fact they are creating an established food and beverage business. What they are really doing is opening a house banked card room. He will present next month a motion to remove that proviso to make it so they must be an established business when application is made and there's no substitute involved.

**Commissioner Heavey** said some individual talked to him about applying for a license and they can't be approved until they have everything turned in. They asked what happens after they made this investment and then if the Commission were to say no. He said they cannot operate on the basis that they have to say yes, so that is a real possibility. He requested that the staff explore a two-tier kind of approval like they do on land use in terms of plat approval. They give a preliminary approval and impose certain conditions on that approval. Those conditions are met and then there's final approval. It seems to him that that creates a more equitable situation for the unusual occurrence where somebody might be turned down after they have put all of this money into an operation.

**Mr. Dykes** said he's an applicant for licensing and the premises are being held under the technical control of the Bankruptcy Court because he doesn't have licenses yet. It can continue operations and has continued operations under the Bankruptcy Court, but that puts him in a catch-22 situation where basically he can't do anything. He said he has been operating the business for the last six months. He said he does not technically own that business yet, but he is running it under the control of the Bankruptcy Court.

**Director Bishop** said it still is an established business – as long as it's an ongoing business. The business itself is established. He said they would have to look at any type of temporary shutdown rather than starting from scratch.

**Chairperson McLaughlin** said the next meeting would be taking place in Vancouver, Washington, in May.

#### **MEETING ADJOURNED**

*Submitted to the Commission for approval:*

*Susan D. Yeager  
Executive Assistant*